9-11-2007

# Single Audit Report Fiscal Year Ended June 30, 2006

Maine State Auditor's Office

State of Maine

# Single Audit Report

Fiscal Year Ending June 30, 2006

State Department of Audit
Neria Douglass, JD, CIA
State Auditor

# STATE OF MAINE
# SINGLE AUDIT REPORT
# FOR THE YEAR ENDED JUNE 30, 2006

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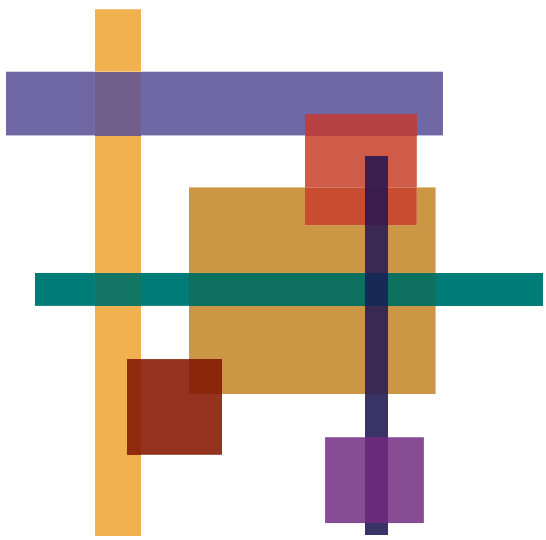

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# Letter of Transmittal

Senator Beth Edmonds
President of the Senate

Representative Glenn Cummings
Speaker of the House of Representatives

The Honorable John E. Baldacci
Governor of Maine

I am pleased to submit the Single Audit of the State of Maine for the fiscal year ended June 30, 2006. This audit was conducted in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States; the requirements of the Single Audit Act Amendments of 1996; and the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This report complies with the State's audit responsibilities, required for the receipt of over $2.8 billion in federal financial assistance during the fiscal year.

This document contains the following reports and schedules:

- Independent Auditor's Report
- Basic Financial Statements, Management's Discussion and Analysis, and Notes to Financial Statements
- Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133
- Schedule of Expenditures of Federal Awards
- Schedule of Findings and Questioned Costs
- Financial Statement Findings
- Indexes to Federal Program Findings
- Federal Findings, Questioned Costs and Corrective Action Plan
- Summary Schedule of Prior Audit Findings

On behalf of the Maine Department of Audit, I thank employees throughout Maine government who have assisted us during our audit. I know that we all work to improve financial reporting and accountability for our citizens and our State.

Please contact me if you have questions or comments about the 2006 Single Audit of the State of Maine.

Respectfully submitted,

Neria R. Douglass, JD, CIA
State Auditor

September 11, 2007

# STATE OF MAINE
# SINGLE AUDIT REPORT
# FOR THE YEAR ENDED JUNE 30, 2006

## EXECUTIVE SUMMARY

## Introduction

The Department of Audit performs an annual financial and compliance audit, the Single Audit of the State of Maine, in order to comply with federal and State requirements. This report provides information used by the federal government, credit rating agencies and State policymakers. It also provides citizens of our State a report on the accountability of our government for the funds it receives and uses.

## Audit Reports

***Independent Auditor's Report***

We rendered an opinion on the financial statements as presented by the management of the State of Maine. The opinion is unqualified, which means that we are able to give assurance that the State of Maine's financial report fairly presents its financial position and the results of its operations for the year ended June 30, 2006. The report is on pages B-3 and B-4.

***Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards***

We reported on internal control over financial reporting and compliance with certain provisions of laws, regulations, contracts and grants, and noncompliance which could have a direct and material effect on the financial statements. The key points of the report, on pages C-3 and C-4, are as follows:

Compliance

We found no material instances of noncompliance; however, we did find certain immaterial instances of noncompliance, which will be reported to the management of the State of Maine in a separate letter.

Internal Control over Financial Reporting

We identified five instances of control weaknesses that we consider to be reportable conditions. Reportable conditions are significant deficiencies in internal control that could adversely affect the State's ability to record, process, summarize and report financial information. We consider

three of the five control weaknesses serious enough to be classified as material weaknesses. A material weakness is a condition in which controls do not reduce to a relatively low level the risk that misstatements in amounts that would be material to the financial statements may occur and not be detected within a timely period by employees in the normal course of business. Issues identified as reportable conditions include: inaccurate accounting for Lottery receivables (06-03) and Employment Security Fund revenue incorrectly recorded as transfers (06-04). Reportable conditions additionally identified as material weaknesses are as follows: controls over DHHS accounts receivable (06-01), controls over the State's fixed assets (06-02), and controls over capital assets valuation in an Internal Service Fund (06-05).

***Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133***

We issued an opinion on the compliance of each major federal program with that program's requirements, and reported on the internal control over that compliance. Our audit included 26 major federal programs representing 89% of the $2.8 billion in federal assistance that the State received. We found 96 instances of control deficiencies or noncompliance with the requirements of federal programs. The key points of the report, commencing at page C-5, are as follows:

<u>Compliance</u>

We expressed an unqualified opinion on 22 major federal programs, indicating that the State had complied, in all material respects, with program requirements.

We qualified our opinion for four programs because of material noncompliance with federal requirements as follows: the Social Services Block Grant program - allowable costs (06-08); the Medicaid Cluster - special tests and provisions regarding a functional claims management system (06-81) and the Medicaid Home and Community Based Services Waiver - insufficient documentation to support compliance with allowable costs (06-59); the State Children's Insurance Program - eligibility requirements (06-66); and the National Bioterrorism Hospital Preparedness Program - period of availability (06-88) .

We identified 21 other instances of noncompliance, due to questioned costs that are required to be reported to the federal government, although they are not serious enough to be classified as material noncompliance.

<u>Internal Control over Compliance</u>

We identified six instances of material weakness in internal control over compliance as follows:

- Inadequate controls over the Medicaid claims management system (06-81)
- Inadequate controls over the Medicaid Home and Community Based Services Waiver Program (06-59)
- Inadequate controls over allocated costs – Social Services Block Grant (06-08)
- Inadequate controls over subrecipient monitoring – Aging Cluster (06-34)
- Inadequate controls over eligibility – State Children's Insurance Program (06-66)

- Inadequate controls over period of availability – National Bioterrorism Hospital Preparedness Program (06-88)

We identified 89 other instances of control weaknesses that we considered to be reportable conditions, but that do not rise to the level of a material weakness. Reportable conditions relate to significant deficiencies in internal control over compliance that could affect the State's ability to comply with program requirements.

## Findings and Questioned Costs

To present a clear perspective, we included the departments' responses, including their plans for corrective action, immediately following each finding. In the event that the department's response appears invalid or not to adequately address the recommendations, we have also included the auditors' conclusions.

<u>Financial Statement Findings</u>

In general, we found that the State's systems facilitate the preparation of financial statements in accordance with generally accepted accounting principles and support the processing of transactions on the budgetary basis of accounting.

<u>Federal Findings</u>

The most significant deficiencies are described above in the sections titled Compliance and Internal Control over Compliance. The Department of Health and Human Services (DHHS) administers 15 of the 26 programs that we audited. However, the 15 DHHS programs expended 81% of the dollars audited and comprised 72% of total State expenditures of federal funds. Given its size and complexity one might expect a significant number of audit findings in this department. Of the 96 federal findings included in our report, 75 relate to programs delivered by DHHS. Some of them involve accounting or information technology issues for which the Department of Administrative and Financial Services' Health and Human Services Service Center or Office of Information Technology is responsible.

<u>Questioned Costs</u>

We reported $22.2 million of known questioned costs that resulted from our specific testing; we also projected additional amounts as likely questioned costs. In eight instances, we were not able to determine an amount to report. Questioned costs are amounts of federal financial assistance that we believe were not spent in compliance with program requirements, or that were insufficiently documented for us to determine compliance. The federal government may or may not disallow these costs and require reimbursement from the State.

## Conclusion

Our audit resulted in an unqualified opinion on the financial statements of the State of Maine. We identified instances of material noncompliance and material weaknesses in internal control. Financial managers of the State of Maine have been responsive to our findings, and we recognize that they are taking actions that should resolve many of these issues.

# STATE OF MAINE
# FINANCIAL STATEMENTS
# FOR THE YEAR ENDED JUNE 30, 2006

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# INDEPENDENT AUDITOR'S REPORT

To the President of the Senate and the
Speaker of the House of Representatives

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of and for the year ended June 30, 2006, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Maine's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Child Development Services System, Finance Authority of Maine, Maine Educational Center for the Deaf and Hard of Hearing, Loring Development Authority, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine State Housing Authority, Maine State Retirement System, Maine Community College System, Maine Technology Institute, Northern New England Passenger Rail Authority, and University of Maine System. Those financial statements reflect total assets and revenues of the government-wide financial statements and total assets and revenues or additions of the fund financial statements as follows:

| Government-Wide Financial Statements | Percent of Assets | Percent of Revenues |
|---|---|---|
| Component Units | 100% | 100% |

| Fund Financial Statements | Percent of Assets | Percent of Revenues or Additions |
|---|---|---|
| Proprietary Funds-Governmental Activities-Internal Service Funds | 37% | 2% |
| Fiduciary Funds – Pension (and Other Employee Benefit) Trusts | 100% | 100% |
| Fiduciary Funds – Private Purpose Trust Funds | 99% | 99.6% |

Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to the amounts included for those component units and funds, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The financial statements of the Maine Educational Loan Authority and the Maine Technology Institute were audited in accordance with auditing standards generally accepted in the United States but not in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement

presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2007 on our consideration of the State of Maine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, budgetary comparison schedules and related notes, information about infrastructure assets reported using the modified approach, and information on the schedules of funding progress and employer contributions for the State retirement plan and the Participating Local District plan are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Maine's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

As discussed in Note 3, the State changed its methods of applying accounting principles regarding accounting for interim payments to Medicaid providers, and recognizing certain tax revenues; it also corrected the reporting of certain capital assets. As discussed in Note 3 to the financial statements, the State's reporting entity changed to include a new component unit.

As discussed in Note 3 to the financial statements, the State implemented Governmental Accounting Standards Board Statements, #42 – *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance* Recoveries, #44 – *Economic Condition Reporting: The Statistical Section,* #46 – *Net Assets Restricted by Enabling* Legislation and #47 – *Accounting for Termination Benefits.*

Neria R. Douglass, JD, CIA
State Auditor

Neria R Douglass

January 31, 2007, except for Note 16, as to which the date is February 28, 2007.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the State of Maine's annual financial report presents the State's discussion and analysis of financial performance during the year ended June 30, 2006. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

## FINANCIAL HIGHLIGHTS

**Government-wide:**

- The State's net assets increased by 7.9 percent from the previous fiscal year. Net assets of Governmental Activities increased by $245 million, while net assets of Business-type Activities increased by $43.7 million. The State's assets exceeded its liabilities by $3.9 billion at the close of fiscal year 2006. Component units reported net assets of $1.8 billion, an increase of $100 million (roughly six percent) from the previous year.

**Fund level:**

- At the end of the fiscal year, the State's governmental funds reported combined ending fund balances of $215.5 million, a decrease of $188.9 million from the previous year. The General Fund's total fund balance was a negative $177.6 million, a decrease of $89 million from the previous year, as restated. The Highway Fund total fund balance also decreased by $73.4 million.

- The proprietary funds reported net assets at year end of $629.9 million, an increase of $138.4 million. This increase is due to two major factors: an increase in the Retiree Health Insurance Fund of $54.2 million, and an increase in the Employee Health Insurance Fund of $34.3 million.

**Long-term Debt:**

- The State's liability for general obligation bonds decreased by $19.5 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued $52.4 million in bonds and made principal payments of $71.9 million.

Additional information regarding the government-wide, fund level, and long-term debt activities can be found beginning on page 7.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State of Maine's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

### Government-wide Statements

The government-wide statements report information about the State as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets presents all of the State's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets are an indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused leave).

Both government-wide statements report three activities:

*Governmental activities* - Most basic services, such as health & human services, education, governmental support & operations, justice & protection, and transportation are included in this category. The Legislature, Judiciary and the general operations of the Executive departments fall within the Governmental Activities. Income taxes, sales and use taxes, and State and federal grants finance most of these activities.

*Business-type activities* - The State charges fees to customers to help cover all or most of the costs of certain services it provides. Operating costs not covered by customer fees are subsidized by the General Fund. Lottery tickets, transportation services, and the State's unemployment compensation services are examples of business-type activities.

*Component units* - Although legally separate, component units are important because the State is financially accountable for these entities. The State has "blended" one component unit, the Maine Governmental Facilities Authority (MGFA) with Governmental Activities as described above. Maine reports 13 other component units as discretely presented component units of the State, and two component units are reported with the State's fiduciary funds. Complete financial statements of the individual component units may be obtained directly from their respective administrative offices as shown in Note 1 A to the financial statements.

Government-wide statements are reported utilizing an economic resources measurement focus and full accrual basis of accounting. The following summarizes the impact of the transition from modified accrual to full accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements but are included on government-wide statements

- Certain tax revenues that are earned, but not available, are reported as revenues in the Governmental Activities, but are reported as deferred revenue on the governmental fund statements

- Other long-term assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements

- Internal service funds are reported as Governmental Activities, but reported as proprietary funds in the fund financial statements

- Governmental fund long-term liabilities, such as certificates of participation, pension obligations, compensated absences, bonds and notes payable, and others appear as liabilities only in the government-wide statements

- Capital outlay spending results in capital assets on the government-wide statements, but is recorded as expenditures on the governmental fund statements

- Proceeds from bonds, notes and other long-term financing arrangements result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements

- Net asset balances are allocated as follows:

  *Net Assets Invested in Capital Assets, Net of Related Debt*;

  *Restricted Net Assets* are those with constraints placed on the use by external sources (creditors, grantors, contributors, or laws or regulations of governments) or imposed by law through constitutional provisions or enabling legislation; and

*Unrestricted Net Assets* are net assets that do not meet any of the above restrictions.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the State's most significant funds. Funds are fiscal and accounting entities with self-balancing sets of accounts that the State uses to keep track of specific revenue sources and spending for particular purposes. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – and use different measurement focuses and bases of accounting.

*Governmental funds:* Most of the basic services are included in governmental funds, which generally focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs of the State. The governmental fund statements focus primarily on the sources, uses, and balance of current financial resources and often have a budgetary orientation. These funds are reported using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Because this information does not encompass the additional long-term focus of the government-wide statements, a separate reconciliation provides additional information that explains the relationship (or differences) between them. The governmental funds consist of the General Fund, special revenue, capital projects, and permanent funds.

*Proprietary funds:* When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) apply the accrual basis of accounting utilized by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery Fund. Internal service funds report activities that provide supplies and services to the State's other programs and activities – such as the State's Postal, Printing & Supply Fund. Internal service funds are reported as Governmental Activities on the government-wide statements.

*Fiduciary funds:* The State is the trustee or fiduciary for assets that belong to others. The State is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. These funds include pension and other employee benefit trusts administered by the Maine State Retirement System, the Maine Health and Higher Educational Facilities Authority, both component units, private-purpose trusts, and agency funds. Fiduciary funds are reported using the accrual basis of accounting. The State excludes these activities from the government-wide financial statements because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

**Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in both the government-wide and fund financial statements.

**Required Supplementary Information**

The required supplementary information includes budgetary comparison schedules for the General Fund and major special revenue funds. Also included are notes and a reconciliation of fund balance from the budgetary basis to fund balance determined according to generally accepted accounting principles. This section also includes schedules of funding progress for certain pension trust funds and condition and maintenance data regarding certain portions of the State's infrastructure.

### Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds. These funds are added together, by fund type, and presented in single columns in the basic financial statements. Budgetary comparison schedules by agency are also included for the general fund, the highway fund, federal funds, and other special revenue fund.

## FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

The State's net assets increased by 7.9 percent to $3.9 billion at June 30, 2006, as detailed in Tables A-1 and A-2.

**Table A- 1:** Condensed Statement of Net Assets
(Expressed in Thousands)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2006 | 2005* | 2006 | 2005 | 2006 | 2005* |
| Current and other noncurrent assets | $2,220,676 | $ 1,787,227 | $ 526,219 | $ 521,130 | $ 2,746,895 | $ 2,308,357 |
| Capital assets | 3,750,134 | 3,491,601 | 79,030 | 49,961 | 3,829,164 | 3,541,562 |
| Total Assets | 5,970,810 | 5,278,828 | 605,249 | 571,091 | 6,576,059 | 5,849,919 |
| Current liabilities | 1,733,519 | 1,247,806 | 35,985 | 32,710 | 1,769,504 | 1,280,516 |
| Long-term liabilities | 784,758 | 823,449 | 87,500 | 100,327 | 872,258 | 923,776 |
| Total Liabilities | 2,518,277 | 2,071,255 | 123,485 | 133,037 | 2,641,762 | 2,204,292 |
| Net assets: | | | | | | |
| Investment in capital assets, net of related debt | 3,347,672 | 3,084,318 | 79,030 | 49,961 | 3,426,702 | 3,134,279 |
| Restricted | 172,449 | 290,385 | 476,832 | 459,538 | 649,281 | 749,923 |
| Unrestricted | (67,588) | (167,130) | (74,098) | (71,445) | (141,686) | (238,575) |
| Total Net Assets | $ 3,452,533 | $ 3,207,573 | $ 481,764 | $ 438,054 | $ 3,934,297 | $ 3,645,627 |

* *As restated*

### Changes in Net Assets

The State's fiscal year 2006 revenues totaled $7 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 48.2 percent and 37 percent, respectively, of every dollar raised. The remainder came from charges for services and other miscellaneous sources.

The total cost of all programs and services totaled $6.7 billion for the year 2006. (See Table A-2) These expenses are predominantly (70 percent) related to health & human services and education activities. The State's governmental support & operations activities accounted for 8 percent of total costs. Total net assets increased by $288.7 million.

**Table A-2:** Changes in Net Assets
(Expressed in Thousands)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2006 | 2005* | 2006 | 2005 | 2006 | 2005* |
| **Revenues** | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | $ 412,033 | $ 374,463 | $ 450,117 | $ 382,747 | $ 862,150 | $ 757,210 |
| Grants/Contributions | 2,561,125 | 2,498,863 | 20,535 | 24,109 | 2,581,660 | 2,522,972 |
| General Revenues: | | | | | | |
| Corporate Income Taxes | 305,872 | 244,842 | - | - | 305,872 | 244,842 |
| Individual Income Taxes | 1,403,790 | 1,296,606 | - | - | 1,403,790 | 1,296,606 |
| Fuel Taxes | 177,904 | 176,020 | - | - | 177,904 | 176,020 |
| Property Taxes | 53,272 | 50,962 | - | - | 53,272 | 50,962 |
| Sales & Use Taxes | 1,156,201 | 1,049,890 | - | - | 1,156,201 | 1,049,890 |
| Other Taxes | 263,506 | 223,326 | - | - | 263,506 | 223,326 |
| Investment Earnings | 28,881 | 20,650 | - | - | 28,881 | 20,650 |
| Other | 145,628 | 142,745 | - | - | 145,628 | 142,745 |
| Total Revenues | 6,508,212 | 6,078,367 | 470,652 | 406,856 | 6,978,864 | 6,485,223 |
| **Expenses** | | | | | | |
| Governmental Activities: | | | | | | |
| Governmental Support | 530,008 | 480,837 | - | - | 530,008 | 480,837 |
| Arts, Heritage & Culture | 12,191 | 13,273 | - | - | 12,191 | 13,273 |
| Business Lic & Reg | 53,547 | 49,553 | - | - | 53,547 | 49,553 |
| Economic Development | | | - | - | | |
| & Workforce Training | 160,093 | 171,092 | | | 160,093 | 171,092 |
| Education | 1,494,438 | 1,412,524 | - | - | 1,494,438 | 1,412,524 |
| Health & Human Services | 3,167,521 | 3,051,822 | - | - | 3,167,521 | 3,051,822 |
| Justice & Protection | 340,281 | 322,072 | - | - | 340,281 | 298,852 |
| Natural Resources | 166,358 | 148,087 | - | - | 166,358 | 171,307 |
| Transportation Safety | 322,438 | 246,837 | - | - | 322,438 | 246,837 |
| Interest | 36,873 | 32,530 | - | - | 36,873 | 32,530 |
| Business-Type Activities: | | | | | | |
| Employment Security | - | - | 103,867 | 113,642 | 103,867 | 113,642 |
| Alcoholic Beverages | - | - | - | 7 | - | 7 |
| Lottery | - | - | 179,628 | 161,691 | 179,628 | 161,691 |
| Airport | - | - | 22 | 892 | 22 | 892 |
| Marine Ports | - | - | 1,378 | 1,829 | 1,378 | 1,829 |
| Ferry Services | - | - | 6,707 | 7,876 | 6,707 | 7,876 |
| Military Equip. Maint. | - | - | 64,437 | 50,908 | 64,437 | 50,908 |
| Dirigo Health | - | - | 47,122 | 13,587 | 47,122 | 13,587 |
| Other | - | - | 3,860 | 2,107 | 3,860 | 2,107 |
| Total Expenses | 6,283,748 | 5,928,627 | 407,021 | 352,539 | 6,690,769 | 6,281,166 |
| Excess (Deficiency) before Special Items and Transfers | 224,464 | 149,740 | 63,631 | 54,317 | 288,095 | 204,057 |
| Special Items | (31,212) | 30,881 | 31,787 | (50,000) | 575 | (19,119) |
| Transfers | 51,708 | 50,211 | (51,708) | (50,211) | - | - |
| **Increase (Decrease) in Net Assets** | 244,960 | 230,832 | 43,710 | (45,894) | 288,670 | 184,938 |
| Beginning Net Assets * | 3,207,573 | 2,976,741 | 438,054 | 483,948 | 3,645,627 | 3,460,689 |
| Ending Net Assets | $ 3,452,533 | $ 3,207,573 | $ 481,764 | $ 438,054 | $ 3,934,297 | $ 3,645,627 |

** As restated*

## Governmental Activities

Revenues for the State's Governmental Activities totaled $6.5 billion while total expenses equaled $6.3 billion. The increase in net assets for Governmental Activities was $245 million in 2006. This is due, primarily, to increases in employment and construction, which resulted in higher-than-expected revenues in the major tax lines. The users of the State's programs financed $412 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of $2.6 billion. $3.5 billion of the State's net costs were financed by taxes and other miscellaneous revenue.

**Table A-3:** Total Sources of Revenues for Governmental Activities for Fiscal Year 2006

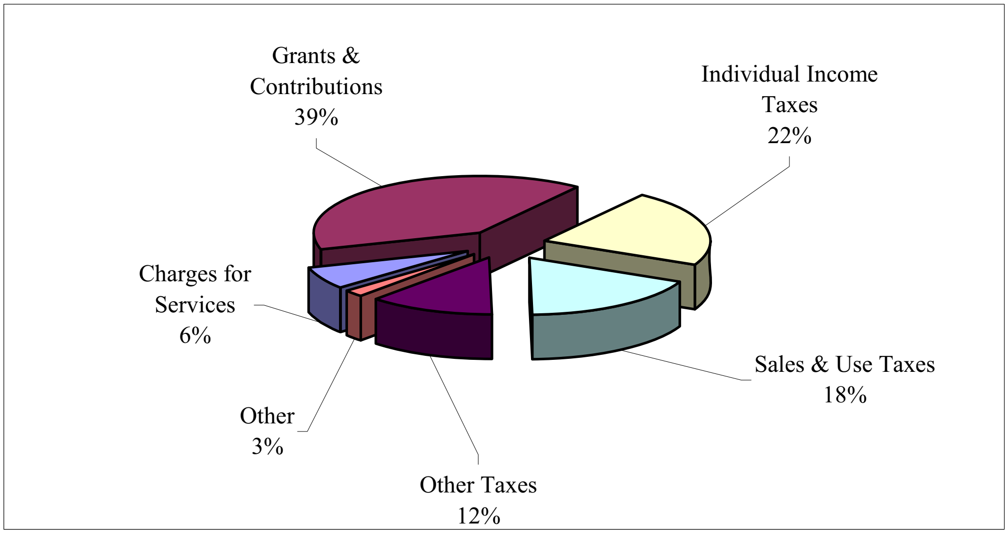
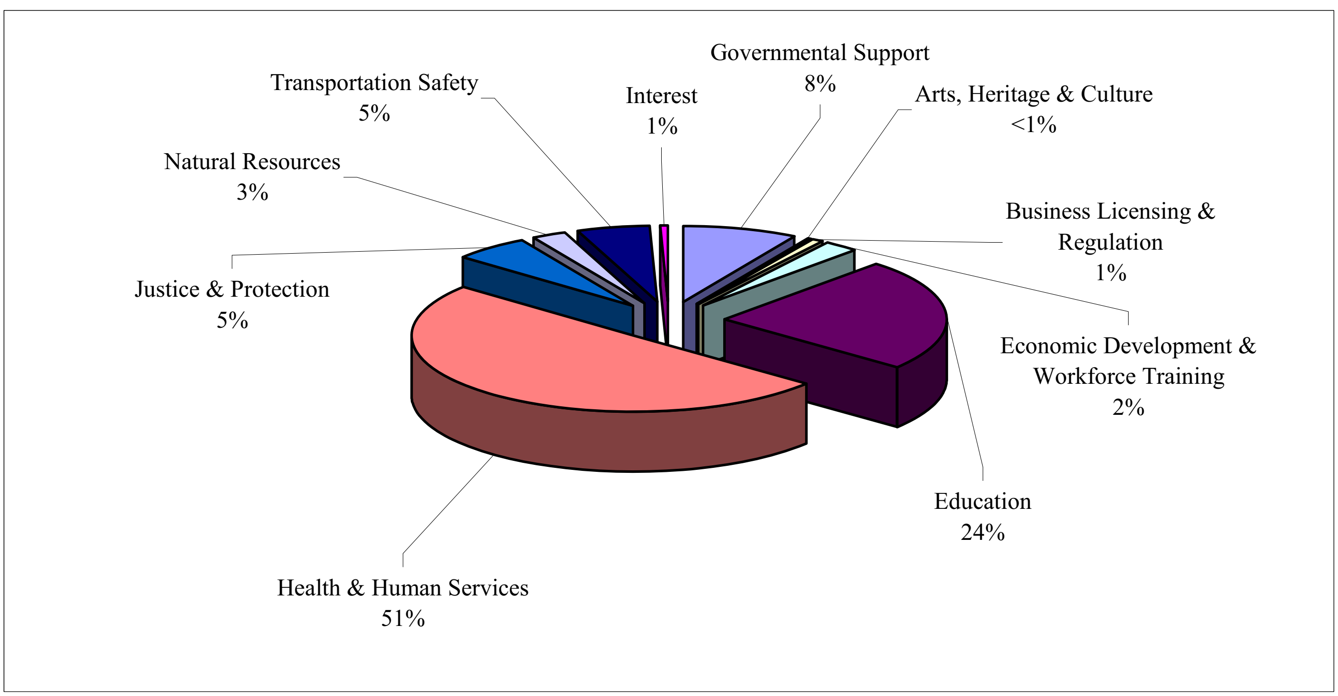



**Table A-4**: Total Expenses for Governmental Activities for Fiscal Year 2006



## Business-type Activities

Revenues for the State's Business-type Activities totaled $470.8 million while expenses totaled $407.6 million. The increase in net assets for Business-type Activities was $43.7 million in 2006, due mainly to the creation of the STAR Fund (State Transit, Aviation and Rail Transportation Fund), which was recorded as a special item.

Table A-5 presents the cost of State Business-type Activities: employment security, alcoholic beverages, lottery, airport, marine ports, ferry services, military equipment maintenance, Dirigo Health and other. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the State's taxpayers by each of these functions.

**Table A-5**: Net Cost of Business-Type Activities
(Expressed in Thousands)

| Category | Total Cost 2006 | Total Cost 2005 | Net (Cost) Revenue 2006 | Net (Cost) Revenue 2005 |
|---|---|---|---|---|
| Employment Security | $ 103,867 | $ 113,642 | $ 19,407 | $ 10,182 |
| Alcoholic Beverages | - | 7 | 12,525 | 12,575 |
| Lottery | 179,628 | 161,691 | 51,334 | 50,274 |
| Airport | 22 | 892 | 5 | (754) |
| Marine Ports | 1,378 | 1,829 | (1,291) | (1,402) |
| Ferry Services | 6,707 | 7,876 | (3,243) | (3,827) |
| Military Equip. Maint. | 65,013 | 50,908 | 5,414 | (4,431) |
| Dirigo Health | 47,122 | 13,587 | (21,236) | (8,371) |
| Other | 3,860 | 2,107 | 268 | 71 |
| Total | $ 407,597 | $ 352,539 | $ 63,183 | $ 54,317 |

The cost of all Business-type Activities this year was $407.6 million. The users of the State's programs financed most of the cost. The State's net revenue from Business-type Activities was $63.2 million. The State’s Business-type Activities transferred $51.7 million (net) to the Governmental Activities in statutorily required profit transfers.

## FINANCIAL ANALYSIS OF THE STATE'S FUNDS

**Table A-6:** Governmental Fund Balances
(Expressed in Thousands)

| **Fund** | 2006 | 2005* | Change |
|---|---|---|---|
| General | $ (177,631) | $(88,594) | $ (89,037) |
| Highway | 9,712 | 83,083 | (73,371) |
| Federal | 22,190 | 31,240 | (9,050) |
| Other Special Revenue | 258,033 | 261,473 | (3,440) |
| Other Governmental | 103,174 | 117,188 | (14,014) |
| Total | $ 215,478 | $ 404,390 | $(188,912) |

* *As restated*

The State's governmental fund balances decreased during fiscal year 2006 from fiscal year 2005 by $188.9 million. The General Fund's decrease was due mainly to the restatement of fund balance from recognizing revenues as available if collected within 12 months of year end, to 60 days. Also, two special items in fiscal year 2005 not present in 2006 accounted for the change: the return of $68.5 million of excess equity from the retiree health insurance fund, and $50 million in proceeds from the sale of the state's liquor operating rights. Net operating expenditures were $19 million higher in fiscal year 2006. The Highway Fund fund balance decreased by $73.4 million from fiscal year 2005. The return of excess equity from the retiree health program in 2005 not applicable to 2006 was $17.4 million for this fund. Operationally, transportation, safety and development expenditures were $108 million higher in fiscal year 2006. Transportation projects undertaken during fiscal year 2006 accounted for most of the increase.

**Budgetary Highlights**

For the 2006 fiscal year, the final legally adopted budgeted expenditures for the General Fund amounted to $2.9 billion, an increase of about $200 million from the original legally adopted budget of approximately $2.7 billion. Actual expenditures on a budgetary basis amounted to approximately $113 million less than those authorized in the final budget; however, after deducting the encumbered obligations that will come due in fiscal year 2007, $71.4 million of unobligated funds remained as a result of a continuing concerted effort to control spending, primarily in the broad categories of education and social services. Actual revenues exceeded final budget forecasts by $71.4 million mainly due to higher than expected personal income tax, corporate tax, and sales tax revenues.

As a part of the final budget adjustment for Fiscal Year 2006, the Legislature approved a direct appropriation to the State's Budget Stabilization Fund in the amount of $29 million. The additional appropriation increased the balance in the Fund to $79.9 million as of June 30, 2006. This item is further explained in Note 2 of Notes to the Financial Statements.

The cost of the State's Medicaid Program exceeded the $632 million in resources approved in the legally adopted budget for Fiscal Year 2006, requiring additional budgetary resources amounting to approximately $75 million. The Legislature adjusted the budget by advancing the funding from the budgeted resources for Fiscal Year 2007, causing a potential shortfall by the same amount. The budget adjustments were required to meet the cost of the weekly cycle payments as well as continue to make "interim payments" to providers as a result of continuing claims processing problems with the Department of Health and Human Services Maine Medical Claims Management System known as MECMS. We note that the Department has submitted an emergency request for Fiscal Year 2007 which will be considered by the Legislature.

# CAPITAL ASSET AND DEBT ADMINISTRATION

## Capital Assets

By the end of fiscal year 2006, the State had roughly $3.8 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2006, the State acquired or constructed more than $350 million of capital assets. The most significant impact on capital assets during the year resulted from continued construction and rehabilitation of roads and bridges, and major construction and renovation of State-owned facilities. More detailed information about the State's capital assets and significant construction commitments is presented in Notes 8 and 15 to the financial statements.

**Table A-6:** Capital Assets
(Expressed in Thousands)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2006 | 2005* | 2006 | 2005 | 2006 | 2005* |
| Land | $ 394,069 | $ 383,348 | $ 38,161 | $ 7,304 | $ 432,230 | $ 390,652 |
| Buildings | 506,881 | 476,315 | 9,322 | 8,747 | 516,203 | 485,062 |
| Equipment | 254,007 | 226,825 | 20,220 | 19,904 | 274,227 | 246,729 |
| Improvements | 17,233 | 25,022 | 61,218 | 51,410 | 78,451 | 76,432 |
| Infrastructure | 2,861,522 | 2,636,582 | - | - | 2,861,522 | 2,636,582 |
| Construction in Progress | 14,527 | 26,025 | 925 | 708 | 15,452 | 26,733 |
| Total Capital Assets | 4,048,239 | 3,774,117 | 129,846 | 88,073 | 4,178,085 | 3,862,190 |
| Accumulated Depreciation | (298,105) | (282,516) | (50,816) | (38,112) | (348,921) | (320,628) |
| Capital Assets, net | $ 3,750,134 | $ 3,491,601 | $ 79,030 | $ 49,961 | $ 3,829,164 | $3,541,562 |

* *As restated*

## Modified Approach for Infrastructure

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets – highways and bridges. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Utilization of this approach requires the State to: 1) maintain an asset management system that includes an up-to-date inventory of infrastructure assets; 2) perform condition assessments that use a measurement scale and document that the infrastructure assets are being preserved at or above the condition level established; and 3) estimate the annual amounts that must be expended to preserve and maintain the infrastructure at the condition level established by the State. As long as the State meets these requirements, any additions or improvements to infrastructure are capitalized and all other maintenance and preservation costs are expensed.

Highways and bridges are included in the State's infrastructure. There are 8,836 highway miles or 17,952 lane miles within the State. Bridges have a deck area of 11.5 million square feet among 2,967 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2006, the actual average condition was 75.0. Its policy for bridges is an average sufficiency rating condition assessment of 60. The actual average condition for bridges was 77 at June 30, 2006. Preservation costs for fiscal year 2006 totaled $51.1 million compared to estimated preservation costs of $51.8 million.

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 33, P&S 2003 ,and Chapter 38, P&S 2001, none was spent during FY 2006.

Additional information on infrastructure assets can be found in Required Supplementary Information (RSI).

**Long-Term Debt**

The State Constitution authorizes general obligation long-term borrowing, with 2/3 approval of the Legislature and ratification by a majority of the voters; and general obligation short-term notes, of which the principal may not exceed an amount greater than 10% of all moneys appropriated, authorized and allocated by the Legislature from undedicated revenues to the General Fund and dedicated revenues to the Highway Fund for that fiscal year, or greater than 1% of the total valuation of the State of Maine, whichever is the lesser.

At year-end, the State had $909 million in general obligation and other long-term debt outstanding. More detailed information about the State's long-term liabilities is presented in Note 11 to the financial statements.

**Table A-7**: Outstanding Long-Term Debt
(Expressed in Thousands)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| General Obligation Bonds | $ 467,550 | $ 487,095 | $ - | $ - | $ 467,550 | $ 487,095 |
| Other Long-Term Obligations | 441,512 | 575,708 | 135 | 383 | 441,647 | 576,091 |
| Total | $909,062 | $1,062,803 | $ 135 | $ 383 | $909,197 | $1,063,186 |

During the year, the State reduced outstanding long-term obligations by $71.9 million for outstanding general obligation bonds and $260.1 million for other long-term debt. Also during fiscal year 2006, the State incurred $173.2 million of additional long-term obligations.

**Credit Ratings**

Three of the major bond rating agencies regularly assess the State's credit rating. During fiscal years 2006 and 2005, Moody's Investors Service rated the State at Aa3, Standard & Poor's rated it at AA-, and Fitch Ratings rated it at AA.

## FACTORS BEARING ON THE FUTURE OF STATE AND NEXT YEAR'S BUDGETS

Maine continues to recover economically. Our State is home to many renowned institutions of higher education, both public and private, industries, vacation areas, and world famous retailers, keeping the economy relatively stable and an incubator for new ideas and growth. Unemployment has remained near the national average due to these stabilization factors. The State of Maine, with an international reputation for recreational, cultural, historical and educational institutions, remains a significant spoke of the New England economy. Maine's economy remains diversified.

Inflation continued to rise though the past year. The Consumer Price Index rose nearly 4% from July 2005 to July 2006; however, fuel and utilities prices rose much faster. The rise in oil prices to over $70 a barrel in late summer due to unrest in the Middle East put pressure on both household and government budgets. Though oil prices have fallen into the $55 to $60 per barrel range, they will continue to affect budgeting decisions throughout fiscal year 2007.

Personal income continues to rise in Maine faster than inflation. According to the latest statistics available, personal income is estimated to have risen by 5.6% in calendar year 2006. The solid growth in 2006 is in contrast to the much slower growth in 2005 when the state was affected by a number of events, the most significant of which was the Base Realignment and Closure Commission process. Unemployment has hovered around the national average throughout the year. The rate in Maine stood at 4.7% in December of 2006 which is slightly above the national rate of 4.5%.

The General Fund Revenue estimate accepted by the Independent Revenue Forecasting Commission for the 2006-2007 Biennium provides approximately $5.8 billion in resources to be available for general purpose spending. At the beginning of the budgeting process for the 2006-2007 Biennium, the Legislature's Office of Program and Fiscal Review estimated structural gap at approximately $701.3 million between revenue and costs to maintain current services. The 2006-2007 biennial budget was brought into balance with the enactment of Public Law 2005, Chapter 12, **"An Act Making Unified Appropriations and Allocations for the Expenditures of State Government, General Fund and Other Funds, and Changing Certain Provisions of the Law Necessary to the Proper Operations of State Government for the Fiscal Years Ending June 30, 2005, June 30, 2006, and June 30, 2007."** The Budget has been amended several times through various public laws to ensure adequate resources are available for the fiscal years of the biennium.

The budget will require further amendment in fiscal year 2007 to ensure adequate resources are available for the State's Medicaid Program to pay "cycle payments" on a timely basis and to pay outstanding bill from the various hospitals throughout the State. It is anticipated that the resources to pay for these costs will be managed through a reforecast of revenues and the use of any unappropriated surplus that may accrue by June 30, 2007.

**New Accounting Standard**

The State maintains a retiree healthcare plan for State employees and teachers that are affected by the standard. The plan is operated on a pay-as-you-go basis, i.e. claims benefits for healthcare plan participants are paid as they occur. The portion of active and retired employee's healthcare premiums for which the State is responsible is estimated and budgeted.

New accounting standards will require the State to begin disclosing its liability for other post employment benefits (commonly referred to as "OPEB") in its FY 2008 financial reports. An initial valuation report by an independent actuarial firm for the State's liability for these health care and life insurance benefits for the fiscal year ended June 30, 2006 was released in January, 2007. The report presented two separate calculations of the State's OPEB liability, depending on whether the liability would be prefunded in a manner meeting the requirements of GASB Statement No. 45.

According to the report, assuming no prefunding, the actuarial accrued liability of the State for OPEB obligations incurred through June 30, 2006 is $4.8 billion. The Present Value of Projected Benefits amounts to approximately $5.9 billion at a discount rate of 4.5%. To fully amortize this liability over a 30-year period, utilizing an amortization

growth rate of 4.5% per year would require annual required contributions (ARC) commencing at $116 million for fiscal 2007 and projected to increase to $296 million in fiscal year 2015-2016.

However, if prefunding at 7.5% is assumed, the actuarial accrued liability is reduced to $3.2 billion and the annual required contribution is calculated to commence at $275 million for fiscal year 2007. As the incremental cost of funding the full ARC is not within reach for the State, the State has decided to fund the ARC on a graduated basis over a ten year period to attain full funding of the annual ARC.

In making these calculations, the independent actuarial firm utilized employment and other data provided by the State and projected annual claims growth initially at 10.5% and declining to 5.1% after ten years and continuation of current benefit levels and current retiree contribution requirements. The report covered only the State's OPEB obligations for State employees, teachers, and participating ancillary groups. Municipalities and authorities of the State of Maine, even if their health care coverage is administered by the State of Maine's Retiree Healthcare Program, will perform their own valuations, as the State acts only as an agent for these entities with respect to OPEB and does not assume the risk or financial burden of their health care costs or liabilities.

In the absence of prefunding, the discount rate must approximate the State's rate of return on non-pension (liquid) investments over the long term, estimated at 4.5% for the purpose of this study. In the event of prefunding, the discount rate would increase to a standard return on long-term investments, estimated at 7.5% for the purpose of this study. In order to quality its OPEB liabilities as prefunded, the State will have to enact legislation providing for the escrowing of annual contributions in the manner required by GASB Statement No. 45 (and similar to the program for funding the State's unfunded actuarial liability for pension).

GASB Statement No. 45 requires that OPEB obligations be recalculated at two-year intervals. Such calculations may be affected by many factors, including changing experience and assumptions regarding future health care claims, by whether or not the State enacts legislation that qualifies its OPEB obligations to be calculated on a prefunded basis, by changes in the State's employee profile, and possible changes in OPEB coverage levels and retiree contribution rates. Accordingly, it should be anticipated that the actuarial accrued liability of the State for OPEB liabilities will fluctuate.

A copy of the valuation report discussed above can be obtained by calling the Office of the State Controller.

## CONTACTING THE STATE'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the finances of the State and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact:

State of Maine
Office of the State Controller
14 State House Station
Augusta, ME 04333-0014
(207)-626-8420
financialreporting@maine.gov


DIRIGO
MAINE

# STATE OF MAINE
# STATEMENT OF NET ASSETS

June 30, 2006
(Expressed in Thousands)

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Totals | Component Units |
| **Assets** | | | | |
| Current Assets: | | | | |
| Equity in Treasurer's Cash Pool | $ 534,963 | $ 22,237 | $ 557,200 | $ 94,271 |
| Cash and Cash Equivalents | 277 | 757 | 1,034 | 40,091 |
| Cash with Fiscal Agent | 21,400 | - | 21,400 | 2,201 |
| Investments | 70,790 | - | 70,790 | 605,882 |
| Restricted Assets: | | | | |
| Restricted Equity in Treasurer's Cash Pool | 16,017 | - | 16,017 | - |
| Restricted Deposits and Investments | 23,802 | 449,748 | 473,550 | - |
| Inventories | 7,466 | 810 | 8,276 | 1,704 |
| Receivables, Net of Allowance for Uncollectibles: | | | | |
| Taxes Receivable | 374,179 | - | 374,179 | - |
| Loans Receivable | 4,286 | - | 4,286 | 29,467 |
| Notes Receivable | - | - | - | 530 |
| Other Receivables | 404,450 | 53,535 | 457,985 | 43,802 |
| Internal Balances | 2,764 | (2,764) | - | 10,511 |
| Due from Other Governments | 668,469 | - | 668,469 | 138,640 |
| Due from Primary Government | - | - | - | 2,747 |
| Loans receivable from primary government | - | - | - | 3,915 |
| Due from Component Units | 772 | - | 772 | - |
| Other Current Assets | 3,404 | 444 | 3,848 | 38,277 |
| Total Current Assets | 2,133,039 | 524,767 | 2,657,806 | 1,012,038 |
| Noncurrent Assets: | | | | |
| Equity in Treasurer's Cash Pool | 35,125 | 1,452 | 36,577 | 6,152 |
| Assets Held in Trust | - | - | - | 2,410 |
| Restricted Assets: | | | | |
| Restricted Equity in Treasurer's Cash Pool | 841 | - | 841 | - |
| Restricted Deposits and Investments | - | - | - | 596,459 |
| Investments | - | - | - | 448,947 |
| Receivables, Net of Current Portion: | | | | |
| Taxes Receivable | 51,671 | - | 51,671 | - |
| Loans Receivable | - | - | - | 1,124,087 |
| Notes Receivable | - | - | - | 161,563 |
| Other Receivables | - | - | - | 5,543 |
| Due from Other Governments | - | - | - | 1,090,326 |
| Loans receivable from primary government | - | - | - | 42,353 |
| Due From Primary Government | - | - | - | 2,495 |
| Other Noncurrent Assets | - | - | - | 34,470 |
| Capital Assets: | | | | |
| Land, Infrastructure, and Other Non-Depreciable Assets | 3,270,118 | 39,086 | 3,309,204 | 98,845 |
| Buildings, Equipment and Other Depreciable Assets | 778,121 | 90,760 | 868,881 | 960,428 |
| Less: Accumulated Depreciation | (298,105) | (50,816) | (348,921) | (339,672) |
| Capital Assets, Net of Accumulated Depreciation | 3,750,134 | 79,030 | 3,829,164 | 719,601 |
| Total Noncurrent Assets | 3,837,771 | 80,482 | 3,918,253 | 4,234,406 |
| Total Assets | $ 5,970,810 | $ 605,249 | $ 6,576,059 | $ 5,246,444 |

The accompanying notes are an integral part of the financial statements.

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Totals | Component Units |
| **Liabilities** | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | $ 1,145,467 | $ 5,120 | $ 1,150,587 | $ 62,069 |
| Accrued Payroll | 46,806 | 1,151 | 47,957 | 795 |
| Compensated Absences | 669 | 135 | 804 | 2,196 |
| Tax Refunds Payable | 130,001 | - | 130,001 | - |
| Due to Component Units | 13,676 | - | 13,676 | - |
| Due to Other Governments | 241,226 | - | 241,226 | 4,044 |
| Due to Primary Government | - | - | - | 1,652 |
| Amounts Held under State & Federal Loan Programs | - | - | - | 30,155 |
| Undistributed Grants and Administrative Funds | - | - | - | 9,472 |
| Allowances for Losses on Insured Commercial Loans | - | - | - | 6,273 |
| Claims Payable | 24,177 | - | 24,177 | - |
| Bonds and Notes Payable | 79,765 | - | 79,765 | 237,438 |
| Revenue Bonds Payable | 14,595 | - | 14,595 | 119 |
| Obligations under Capital Leases | 6,154 | - | 6,154 | 1,238 |
| Certificates of Participation and Other Financing Arrangements | 11,003 | - | 11,003 | - |
| Pledged Future Revenues | 3,915 | - | 3,915 | - |
| Accrued Interest Payable | 8,281 | - | 8,281 | 17,775 |
| Deferred Revenue | 3,404 | 14,430 | 17,834 | 65,321 |
| Other Current Liabilities | 4,380 | 15,149 | 19,529 | 37,704 |
| Total Current Liabilities | 1,733,519 | 35,985 | 1,769,504 | 476,251 |
| Long-Term Liabilities: | | | | |
| Compensated Absences | 40,657 | - | 40,657 | - |
| Due to Other Governments | 136 | - | 136 | 7,080 |
| Amounts Held under State & Federal Loan Programs | - | - | - | 42,945 |
| Claims Payable | 48,804 | - | 48,804 | - |
| Bonds and Notes Payable | 387,785 | - | 387,785 | 2,879,934 |
| Revenue Bonds Payable | 171,620 | - | 171,620 | 2,503 |
| Obligations under Capital Leases | 33,937 | - | 33,937 | 3,890 |
| Certificates of Participation and Other Financing Arrangements | 25,578 | - | 25,578 | - |
| Pledged Future Revenues | 42,353 | - | 42,353 | - |
| Deferred Revenue | 15,838 | 87,500 | 103,338 | 774 |
| Pension Obligation | 18,050 | - | 18,050 | - |
| Other Noncurrent Liabilities | - | - | - | 79,083 |
| Total Long-Term Liabilities | 784,758 | 87,500 | 872,258 | 3,016,209 |
| Total Liabilities | 2,518,277 | 123,485 | 2,641,762 | 3,492,460 |
| **Net Assets** | | | | |
| Invested in Capital Assets, Net of Related Debt | 3,347,672 | 79,030 | 3,426,702 | 571,960 |
| Restricted: | | | | |
| Highway Fund Purposes | 9,401 | - | 9,401 | - |
| Federal Programs | 22,190 | - | 22,190 | - |
| Natural Resources | 20,827 | - | 20,827 | - |
| Capital Projects and Debt Service | 38,090 | - | 38,090 | - |
| Unemployment Compensation | - | 476,832 | 476,832 | - |
| Other Purposes | 11,033 | - | 11,033 | 981,488 |
| Funds Held as Permanent Investments: | | | | |
| Expendable | 59,634 | - | 59,634 | - |
| Nonexpendable | 11,274 | - | 11,274 | - |
| Unrestricted | (67,588) | (74,098) | (141,686) | 200,536 |
| Total Net Assets | $ 3,452,533 | $ 481,764 | $ 3,934,297 | $ 1,753,984 |

# STATE OF MAINE
# STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

| | | Program Revenues | | |
|---|---|---|---|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| **Primary government:** | | | | |
| Governmental activities: | | | | |
| Governmental Support & Operations | $ 530,008 | $ 71,507 | $ 6,628 | $ - |
| Arts, Heritage & Cultural Enrichment | 12,191 | 920 | 2,449 | - |
| Business Licensing & Regulation | 53,547 | 65,588 | 1,216 | - |
| Economic Development & Workforce Training | 160,093 | 2,966 | 82,316 | - |
| Education | 1,494,438 | 8,605 | 190,614 | - |
| Health & Human Services | 3,167,521 | 15,097 | 1,956,406 | - |
| Justice & Protection | 340,281 | 75,035 | 68,638 | - |
| Natural Resources Development & Protection | 166,358 | 76,921 | 32,573 | 24,268 |
| Transportation Safety & Development | 322,438 | 95,394 | 196,017 | - |
| Interest Expense | 36,873 | - | - | - |
| Total Governmental Activities | 6,283,748 | 412,033 | 2,536,857 | 24,268 |
| Business-Type Activities: | | | | |
| Employment Security | 103,867 | 102,611 | 20,663 | - |
| Alcoholic Beverages | - | 12,525 | - | - |
| Lottery | 179,628 | 230,962 | - | - |
| Airport | 22 | 27 | - | - |
| Marine Ports | 1,378 | 87 | - | - |
| Ferry Services | 6,707 | 3,464 | - | - |
| Military Equipment Maintenance | 65,013 | 70,427 | - | - |
| Dirigo Health | 47,122 | 25,886 | - | - |
| Other | 3,860 | 4,128 | - | - |
| Total Business-Type Activities | 407,597 | 450,117 | 20,663 | - |
| Total Primary Government | $ 6,691,345 | $ 862,150 | $ 2,557,520 | $ 24,268 |
| **Component Units:** | | | | |
| Child Development Services | $ 27,801 | $ 4,558 | $ 22,228 | $ - |
| Finance Authority of Maine | 29,572 | 15,449 | 21,855 | - |
| Maine Educational Center for the Deaf and Hard of Hearing | 6,312 | 120 | 1 | - |
| Loring Development Authority | 3,488 | 1,389 | 75 | 11 |
| Maine Community College System | 96,422 | 22,277 | 26,119 | 6,386 |
| Maine Educational Loan Authority | 4,419 | 3,523 | 1,216 | - |
| Maine Maritime Academy | 22,891 | 11,768 | 2,792 | 1,421 |
| Maine Municipal Bond Bank | 69,042 | 50,369 | 1,303 | 37,193 |
| Maine Port Authority | 2,188 | 125 | 93 | 505 |
| Maine Technology Institute | 8,023 | 49 | 7,724 | - |
| Maine State Housing Authority | 204,397 | 72,359 | 147,896 | - |
| Northern New England Passenger Rail Authority | 10,547 | 5,068 | 5,942 | 975 |
| University of Maine System | 600,012 | 242,316 | 182,420 | 4,746 |
| Total Component Units | $ 1,085,114 | $ 429,370 | $ 419,664 | $ 51,237 |

General Revenues:
Taxes:
Corporate
Individual Income
Fuel
Property
Sales & Use
Other
Unrestricted Investment Earnings
Non-Program Specific Grants, Contributions & Appropriations
Miscellaneous Income
Loss on Assets Held for Sale
Tobacco Settlement
Special Items
Transfers - Internal Activities
Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning (As Restated)
Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

| Net (Expenses) Revenues and Changes in Net Assets | | | |
|---|---|---|---|
| Primary Government | | | |
| Governmental Activities | Business-type Activities | Total | Component Units |
| $ (451,873) | $ - | $ (451,873) | $ - |
| (8,822) | - | (8,822) | - |
| 13,257 | - | 13,257 | - |
| (74,811) | - | (74,811) | - |
| (1,295,219) | - | (1,295,219) | - |
| (1,196,018) | - | (1,196,018) | - |
| (196,608) | - | (196,608) | - |
| (32,596) | - | (32,596) | - |
| (31,027) | - | (31,027) | - |
| (36,873) | - | (36,873) | - |
| (3,310,590) | - | (3,310,590) | - |
| - | 19,407 | 19,407 | - |
| - | 12,525 | 12,525 | - |
| - | 51,334 | 51,334 | - |
| - | 5 | 5 | - |
| - | (1,291) | (1,291) | - |
| - | (3,243) | (3,243) | - |
| - | 5,414 | 5,414 | - |
| - | (21,236) | (21,236) | - |
| - | 268 | 268 | - |
| - | 63,183 | 63,183 | - |
| (3,310,590) | 63,183 | (3,247,407) | - |
| - | - | - | (1,015) |
| - | - | - | 7,732 |
| - | - | - | (6,191) |
| - | - | - | (2,013) |
| - | - | - | (41,640) |
| - | - | - | 320 |
| - | - | - | (6,910) |
| - | - | - | 19,823 |
| - | - | - | (1,465) |
| - | - | - | (250) |
| - | - | - | 15,858 |
| - | - | - | 1,438 |
| - | - | - | (170,530) |
| - | - | - | (184,843) |
| 305,872 | - | 305,872 | - |
| 1,403,790 | - | 1,403,790 | - |
| 177,904 | - | 177,904 | - |
| 53,272 | - | 53,272 | - |
| 1,156,201 | - | 1,156,201 | - |
| 263,506 | - | 263,506 | - |
| 28,881 | - | 28,881 | 12,255 |
| - | - | - | 264,955 |
| 104,272 | 448 | 104,720 | 6,430 |
| (217) | - | (217) | 301 |
| 41,573 | - | 41,573 | - |
| (31,212) | 31,787 | 575 | - |
| 51,708 | (51,708) | - | - |
| 3,555,550 | (19,473) | 3,536,077 | 283,941 |
| 244,960 | 43,710 | 288,670 | 99,098 |
| 3,207,573 | 438,054 | 3,645,627 | 1,654,886 |
| $ 3,452,533 | $ 481,764 | $ 3,934,297 | $ 1,753,984 |

# STATE OF MAINE
# BALANCE SHEET
# GOVERNMENTAL FUNDS

June 30, 2006
(Expressed in Thousands)

| | General | Highway | Federal | Other Special Revenue | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Current Assets: | | | | | | |
| Equity in Treasurer's Cash Pool | $ 64,564 | $ 45,396 | $ 30,614 | $ 226,401 | $ 114 | $ 367,089 |
| Cash and Short-Term Investments | 118 | 116 | 3 | 37 | - | 274 |
| Cash with Fiscal Agent | 4,503 | 3,091 | - | 10,866 | - | 18,460 |
| Investments | - | - | - | - | 70,790 | 70,790 |
| Restricted Assets: | | | | | | |
| Restricted Equity in Treasurer's Cash Pool | 3,124 | - | - | - | 12,893 | 16,017 |
| Restricted Deposits and Investments | - | - | - | - | 21,192 | 21,192 |
| Inventories | 1,422 | - | 1,680 | - | - | 3,102 |
| Receivables, Net of Allowance for Uncollectibles: | | | | | | |
| Taxes Receivable | 339,381 | 21,638 | - | 13,160 | - | 374,179 |
| Loans Receivable | 1 | 80 | - | 4,205 | - | 4,286 |
| Other Receivable | 127,844 | 2,558 | 199,124 | 67,091 | - | 396,617 |
| Due from Other Funds | 18,675 | 1,712 | 19,966 | 1,994 | - | 42,347 |
| Due from Other Governments | - | - | 663,143 | - | - | 663,143 |
| Due from Component Units | - | - | - | - | 772 | 772 |
| Other Current Assets | 2,174 | - | 52 | (34) | - | 2,192 |
| Total Current Assets | 561,806 | 74,591 | 914,582 | 323,720 | 105,761 | 1,980,460 |
| Noncurrent Assets: | | | | | | |
| Equity in Treasurer's Cash Pool | 4,419 | 2,962 | 1,998 | 14,778 | 8 | 24,165 |
| Restricted Assets: | | | | | | |
| Restricted Equity in Treasurer's Cash Pool | - | - | - | - | 841 | 841 |
| Taxes Receivable | 51,671 | - | - | - | - | 51,671 |
| Working Capital Advances Receivable | 111 | - | - | - | - | 111 |
| Total Noncurrent Assets | 56,201 | 2,962 | 1,998 | 14,778 | 849 | 76,788 |
| Total Assets | $ 618,007 | $ 77,553 | $ 916,580 | $ 338,498 | $ 106,610 | $ 2,057,248 |
| **Liabilities and Fund Balances** | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts Payable | $ 398,345 | $ 47,948 | $ 637,324 | $ 34,490 | $ 939 | $ 1,119,046 |
| Accrued Payroll | 22,681 | 8,970 | 6,015 | 6,276 | - | 43,942 |
| Tax Refunds Payable | 130,001 | - | - | - | - | 130,001 |
| Due to Other Governments | 11,677 | - | 229,549 | - | - | 241,226 |
| Due to Other Funds | 32,073 | 3,054 | 14,855 | 3,775 | - | 53,757 |
| Due to Component Units | 2,235 | 40 | 4,364 | 4,542 | 2,495 | 13,676 |
| Deferred Revenue | 144,282 | - | 1,724 | 22,704 | - | 168,710 |
| Other Accrued Liabilities | 2,673 | 319 | 559 | 1,383 | 2 | 4,936 |
| Total Current Liabilities | 743,967 | 60,331 | 894,390 | 73,170 | 3,436 | 1,775,294 |
| Long-Term Liabilities: | | | | | | |
| Deferred Revenue | 51,671 | 7,510 | - | 7,295 | - | 66,476 |
| Total Long-Term Liabilities | 51,671 | 7,510 | - | 7,295 | - | 66,476 |
| Total Liabilities | 795,638 | 67,841 | 894,390 | 80,465 | 3,436 | 1,841,770 |
| Fund Balances: | | | | | | |
| Reserved | | | | | | |
| Continuing Appropriations | 129,659 | 56,899 | 54,850 | 234,885 | 161 | 476,454 |
| Debt Service | 3,896 | 1,928 | - | - | - | 5,824 |
| Capital Projects | - | - | - | - | 32,266 | 32,266 |
| Permanent Trusts | - | - | - | - | 11,274 | 11,274 |
| Other | 44,241 | 80 | - | 8,441 | 59,473 | 112,235 |
| Unreserved | (355,427) | (49,195) | (32,660) | 14,707 | - | (422,575) |
| Total Fund Balances | (177,631) | 9,712 | 22,190 | 258,033 | 103,174 | 215,478 |
| Total Liabilities and Fund Balances | $ 618,007 | $ 77,553 | $ 916,580 | $ 338,498 | $ 106,610 | $ 2,057,248 |

The accompanying notes are an integral part of the financial statements.

# STATE OF MAINE
# RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2006
(Expressed in Thousands)

| | | |
|---|---|---|
| Total fund balances for governmental funds | | $ 215,478 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. | 3,810,306 | |
| Less: Accumulated depreciation | (168,835) | 3,641,471 |
| Long-term liabilities are not due and payable in the current period. Therefore, long-term liabilities are not reported in the governmental fund statements. However, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement: | | |
| Bonds Payable | (467,550) | |
| Interest Payable Related to Long-term Financing | (5,244) | |
| Certificates of Participation and Other Financing Arrangements | (14,063) | |
| Pledged Future Revenues | (46,268) | |
| Compensated Absences | (37,938) | |
| Pension Obligation | (18,050) | (589,113) |
| Certain revenues are earned but not available and therefore are not reported in the governmental fund statements. | | 222,791 |
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. | | (38,094) |
| Net assets of governmental activities | | $ 3,452,533 |

The accompanying notes are an integral part of the financial statements.

# STATE OF MAINE
# STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

| | General | Highway | Federal | Other Special Revenue | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|
| **Revenues:** | | | | | | |
| Taxes | $ 2,926,835 | $ 224,196 | $ - | $ 193,772 | $ - | $ 3,344,803 |
| Assessments and Other Revenue | 105,371 | 92,413 | - | 92,671 | - | 290,455 |
| Federal Grants and Reimbursements | 17,334 | - | 2,604,476 | 3,544 | - | 2,625,354 |
| Service Charges | 41,395 | 7,138 | 296 | 86,986 | - | 135,815 |
| Investment Income | 12,299 | 2,076 | 654 | 4,033 | 5,078 | 24,140 |
| Miscellaneous Revenue | 14,993 | 3,995 | 5,688 | 91,124 | - | 115,800 |
| Total Revenues | 3,118,227 | 329,818 | 2,611,114 | 472,130 | 5,078 | 6,536,367 |
| **Expenditures** | | | | | | |
| Current: | | | | | | |
| Governmental Support & Operations | 327,529 | 34,364 | 9,347 | 148,336 | 9,886 | 529,462 |
| Economic Development & Workforce Training | 45,324 | - | 86,407 | 24,195 | 6,400 | 162,326 |
| Education | 1,283,214 | - | 187,941 | 8,364 | 31,143 | 1,510,662 |
| Heatlh and Human Services | 1,097,456 | - | 2,026,258 | 239,283 | 1,167 | 3,364,164 |
| Business Licensing & Regulation | - | - | 955 | 55,109 | - | 56,064 |
| Natural Resources Development & Protection | 70,878 | 32 | 39,892 | 75,269 | 5,541 | 191,612 |
| Justice and Protection | 227,588 | 35,576 | 70,802 | 27,616 | 812 | 362,394 |
| Arts, Heritage & Cultural Enrichment | 8,504 | - | 2,573 | 896 | 682 | 12,655 |
| Transportation Safety & Development | 178 | 316,559 | 208,776 | 36,405 | 12,396 | 574,314 |
| Debt Service: | | | | | | |
| Principal Payments | 57,985 | 13,950 | 3,155 | - | - | 75,090 |
| Interest Payments | 15,263 | 2,007 | 1,728 | - | - | 18,998 |
| Total Expenditures | 3,133,919 | 402,488 | 2,637,834 | 615,473 | 68,027 | 6,857,741 |
| Revenues over (under) Expenditures | (15,692) | (72,670) | (26,720) | (143,343) | (62,949) | (321,374) |
| Other Financing Sources (Uses): | | | | | | |
| Transfer from Other Funds | 90,912 | 1,751 | 31,471 | 157,929 | 676 | 282,739 |
| Transfer to Other Funds | (164,923) | (3,586) | (13,801) | (49,064) | (4,131) | (235,505) |
| Other | 666 | 1,134 | - | 8,927 | - | 10,727 |
| Proceeds from Pledged Future Revenues | - | - | - | 22,111 | - | 22,111 |
| Bonds Issued | - | - | - | - | 52,390 | 52,390 |
| Net Other Finance Sources (Uses) | (73,345) | (701) | 17,670 | 139,903 | 48,935 | 132,462 |
| Revenues and Other Sources over (under) Expenditures and Other Uses | (89,037) | (73,371) | (9,050) | (3,440) | (14,014) | (188,912) |
| Fund Balances at Beginning of Year (As Restated) | (88,594) | 83,083 | 31,240 | 261,473 | 117,188 | 404,390 |
| Fund Balances at End of Year | $ (177,631) | $ 9,712 | $ 22,190 | $ 258,033 | $ 103,174 | $ 215,478 |

The accompanying notes are an integral part of the financial statements.

# STATE OF MAINE
# RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

June 30, 2006
(Expressed in Thousands)

| | | | |
|---|---|---|---|
| Net change in fund balances - total governmental funds | | $ | (188,912) |
| Amounts reported for governmental activities in the statement of activities are different because: | | | |
| Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, the amounts are: | | | |
| Capital outlay | 273,884 | | |
| Donated land | 17,352 | | |
| Transfer of capital assets to STAR fund, net | (31,212) | | |
| Depreciation expense | (23,209) | | 236,815 |
| The net effect of various transactions involving capital assets (ie. sales, trade ins and contributions) is to increase net assets. | | | (217) |
| The issuance of long-term debt provides current financial resources to governmental funds which increases long-term debt in the Statement of Net Assets. Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but repayment reduces long-term debt in the Statement of Net Assets. This is the amount that proceeds exceed repayments: | | | |
| Bond proceeds | (52,390) | | |
| Proceeds from other financing arrangements | (1,800) | | |
| Repayment of bond principal | 71,935 | | |
| Repayment of other financing debt | 10,972 | | |
| Accrued interest | (1,714) | | 27,003 |
| Certain expenditures are reported in the funds. However, they either increase or decrease long-term liabilities reported as expenditures on the Statement of Net Assets and have been eliminated from the Statement of Activities as follows: | | | |
| Pension obligation | 16,186 | | |
| Pledged future revenues | 3,155 | | |
| Claims payable | 107,305 | | |
| Compensated absences | (3,686) | | 122,960 |
| Certain revenues are earned but not available and therefore are not reported in the governmental fund statements. | | | (50,753) |
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is included in governmental activities in the Statement of Activities. | | | 98,064 |
| Changes in net assets of governmental activities | | $ | 244,960 |

The accompanying notes are an integral part of the financial statements.

# STATE OF MAINE
# STATEMENT OF NET ASSETS
## PROPRIETARY FUNDS

June 30, 2006
(Expressed in Thousands)

| | Business-Type Activities Enterprise Funds | | | | Governmental Activities |
|---|---|---|---|---|---|
| | Major Employment Security | Major Alcoholic Beverages | Non-Major Other Enterprise | Totals | Internal Service Funds |
| **Assets** | | | | | |
| Current Assets: | | | | | |
| Equity in Treasurer's Cash Pool | $ - | $ - | $ 22,237 | $ 22,237 | $ 167,874 |
| Cash and Short-Term Investments | - | - | 757 | 757 | 3 |
| Cash with Fiscal Agent | - | - | - | - | 2,940 |
| Restricted Assets: | | | | | |
| Restricted Deposits and Investments | 449,748 | - | - | 449,748 | 2,610 |
| Inventories | - | - | 810 | 810 | 4,364 |
| Receivables, Net of Allowance for Uncollectibles: | | | | | |
| Loans Receivable | - | - | - | - | 14,595 |
| Other Receivable | 28,239 | - | 25,296 | 53,535 | 7,833 |
| Due from Other Funds | 26 | - | 6,786 | 6,812 | 16,588 |
| Other Current Assets | - | - | 444 | 444 | 1,212 |
| Total Current Assets | 478,013 | - | 56,330 | 534,343 | 218,019 |
| Noncurrent Assets: | | | | | |
| Equity in Treasurer's Cash Pool | - | - | 1,452 | 1,452 | 10,960 |
| Receivables, Net of Allowance for Uncollectibles: | | | | | |
| Loans Receivable | - | - | - | - | 171,620 |
| Capital Assets - Net of Depreciation | - | - | 79,030 | 79,030 | 108,663 |
| Total Noncurrent Assets | - | - | 80,482 | 80,482 | 291,243 |
| Total Assets | 478,013 | - | 136,812 | 614,825 | 509,262 |
| **Liabilities** | | | | | |
| Current Liabilities: | | | | | |
| Accounts Payable | 928 | - | 4,192 | 5,120 | 21,239 |
| Accrued Payroll | - | - | 1,151 | 1,151 | 2,864 |
| Due to Other Governments | - | - | - | - | 136 |
| Due to Other Funds | - | 1 | 11,265 | 11,266 | 5,906 |
| Current Portion of Long-Term Obligations: | | | | | |
| Certificates of Participation and Other Financing Arrangements | - | - | - | - | 5,138 |
| Revenue Bonds Payable | - | - | - | - | 14,595 |
| Obligations Under Capital Leases | - | - | - | - | 6,154 |
| Claims Payable | - | - | - | - | 24,177 |
| Compensated Absences | - | - | 135 | 135 | 669 |
| Deferred Revenue | - | 12,500 | 1,930 | 14,430 | 487 |
| Other Accrued Liabilities | 253 | - | 14,896 | 15,149 | 2,481 |
| Total Current Liabilities | 1,181 | 12,501 | 33,569 | 47,251 | 83,846 |
| Long-Term Liabilities: | | | | | |
| Working Capital Advances Payable | - | - | - | - | 111 |
| Deferred Revenue | - | 87,500 | - | 87,500 | 1,033 |
| Certificates of Participation and Other Financing Arrangements | - | - | - | - | 17,380 |
| Revenue Bonds Payable | - | - | - | - | 171,620 |
| Obligations Under Capital Leases | - | - | - | - | 33,937 |
| Claims Payable | - | - | - | - | 48,804 |
| Compensated Absences | - | - | - | - | 2,720 |
| Total Long-Term Liabilities | - | 87,500 | - | 87,500 | 275,605 |
| Total Liabilities | 1,181 | 100,001 | 33,569 | 134,751 | 359,451 |
| **Net Assets** | | | | | |
| Invested in Capital Assets, Net of Related Debt | - | - | 79,030 | 79,030 | 55,254 |
| Restricted for: | | | | | |
| Unemployment Compensation | 476,832 | - | - | 476,832 | - |
| Other Purposes | - | - | - | - | 45 |
| Unrestricted | - | (100,001) | 24,213 | (75,788) | 94,512 |
| Total Net Assets | $ 476,832 | $ (100,001) | $ 103,243 | 480,074 | $ 149,811 |
| Amounts reported for business-type activities in the government-wide Statement of Net Assets are different due to elimination of the State's internal business-type activities. | | | | 1,690 | |
| Net Assets of Business-Type Activities | | | | $ 481,764 | |

The accompanying notes are an integral part of the financial statements.

# STATE OF MAINE
# STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
## PROPRIETARY FUNDS

Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

| | Business-Type Activities Enterprise Funds | | | | Governmental Activities |
|---|---|---|---|---|---|
| | Major Employment Security | Major Alcoholic Beverages | Non-Major Other Enterprise | Totals | Internal Service Funds |
| **Operating Revenues:** | | | | | |
| Charges for Services | $ - | $ 25 | $ 332,546 | $ 332,571 | $ 412,630 |
| Assessments | 102,608 | - | 1,345 | 103,953 | - |
| Miscellaneous Revenues | 3 | - | 907 | 910 | 1,486 |
| Total Operating Revenues | 102,611 | 25 | 334,798 | 437,434 | 414,116 |
| **Operating Expenses:** | | | | | |
| General Operations | - | - | 301,194 | 301,194 | 299,520 |
| Depreciation | - | - | 3,452 | 3,452 | 15,114 |
| Claims/Fees Expense | 103,867 | - | - | 103,867 | 9,127 |
| Other Operating Expenses | - | - | - | - | 320 |
| Total Operating Expenses | 103,867 | - | 304,646 | 408,513 | 324,081 |
| Operating Income (Loss) | (1,256) | 25 | 30,152 | 28,921 | 90,035 |
| **Nonoperating Revenues (Expenses):** | | | | | |
| Investment Revenue (Expense) - net | 20,663 | - | - | 20,663 | 5,241 |
| Interest Expense | - | - | - | - | (16,155) |
| Other Nonoperating Revenues (Expenses)- net | - | 12,500 | (393) | 12,107 | (604) |
| Total Nonoperating Revenues (Expenses) | 20,663 | 12,500 | (393) | 32,770 | (11,518) |
| Income (Loss) Before Capital Contributions, Transfers and Special Items | 19,407 | 12,525 | 29,759 | 61,691 | 78,517 |
| **Capital Contributions, Transfers and Special Items:** | | | | | |
| Capital Contributions from (to) Other Funds | - | - | 448 | 448 | 3,417 |
| Transfers from (to) Other Funds | (2,113) | (26) | (49,569) | (51,708) | 14,267 |
| Special Items | - | - | 31,787 | 31,787 | - |
| Total Capital Contributions, Transfers In (Out) and Special Items | (2,113) | (26) | (17,334) | (19,473) | 17,684 |
| Change in Net Assets | 17,294 | 12,499 | 12,425 | 42,218 | 96,201 |
| Total Net Assets - Beginning of Year | 459,538 | (112,500) | 90,818 | | 53,610 |
| Total Net Assets - End of Year | $ 476,832 | $ (100,001) | $ 103,243 | | $ 149,811 |
| Amounts reported for business-type activities in the government-wide Statement of Activities are different due to elimination of the State's internal business-types activities | | | | 1,492 | |
| Changes in Business-Type Net Assets | | | | $ 43,710 | |

The accompanying notes are an integral part of the financial statements.

# STATE OF MAINE
# STATEMENT OF CASH FLOWS
## PROPRIETARY FUNDS

Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

| | Business-Type Activities Enterprise Funds | | | | Governmental Activities |
|---|---|---|---|---|---|
| | Major Employment Security | Major Alcoholic Beverages | Non-Major Other Enterprise | Totals | Internal Service Funds |
| **Cash Flows from Operating Activities** | | | | | |
| Receipts from Customers and Users | $ 105,490 | $ 25 | $ 327,144 | $ 432,659 | $ 438,778 |
| Payments of Benefits | (104,881) | - | - | (104,881) | - |
| Payments to Prize Winners | - | - | (144,416) | (144,416) | - |
| Payments to Suppliers | - | 1 | (116,232) | (116,231) | (311,840) |
| Payments to Employees | - | - | (34,018) | (34,018) | (39,009) |
| Net Cash Provided (Used) by Operating Activities | 609 | 26 | 32,478 | 33,113 | 87,929 |
| **Cash Flows from Noncapital Financing Activities** | | | | | |
| Operating Transfers in | - | - | 3,653 | 3,653 | 1,127 |
| Operating Transfers out | (2,113) | (26) | (53,222) | (55,361) | 13,140 |
| Net Cash Provided (Used) by Noncapital Financing Activities | (2,113) | (26) | (49,569) | (51,708) | 14,267 |
| **Cash Flows from Capital and Related Financing Activities** | | | | | |
| Payments for Acquisition of Capital Assets | - | - | (286) | (286) | (30,144) |
| Proceeds from Financing Arrangements | - | - | - | - | 24,190 |
| Principal and Interest Paid on Financing Arrangements | - | - | - | - | (38,719) |
| Proceeds from Sale of Capital Assets | - | - | (9) | (9) | - |
| Net Cash Provided (Used) by Capital Financing Activities | - | - | (295) | (295) | (44,673) |
| **Cash Flows from Investing Activities** | | | | | |
| Interest Revenue | 20,663 | - | (384) | 20,279 | 5,241 |
| Net Cash Provided (Used) by Investing Activities | 20,663 | - | (384) | 20,279 | 5,241 |
| Net Increase (Decrease) in Cash/Cash Equivalents | 19,159 | - | (17,770) | 1,389 | 62,764 |
| Cash/Cash Equivalents - Beginning of Year | 430,589 | - | 42,216 | 472,805 | 121,623 |
| Cash/Cash Equivalents - End of Year | $ 449,748 | $ - | $ 24,446 | $ 474,194 | $ 184,387 |
| **Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities** | | | | | |
| Operating Income (Loss) | $ (1,256) | $ 25 | $ 30,152 | $ 28,921 | $ 90,035 |
| **Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities** | | | | | |
| Depreciation Expense | - | - | 3,452 | 3,452 | 15,114 |
| Decrease (Increase) in Assets | | | | | |
| Accounts Receivable | 2,897 | - | (4,353) | (1,456) | 20,398 |
| Interfund Balances | (18) | 1 | (2,935) | (2,952) | (30,067) |
| Inventories | - | - | 29 | 29 | (424) |
| Increase (Decrease) in Liabilities | | | | | |
| Accounts Payable | 235 | - | 566 | 801 | (1,912) |
| Accrued Payroll Expenses | - | - | (84) | (84) | 1,168 |
| Change in Compensated Absences | - | - | (248) | (248) | 1,860 |
| Other Accruals | (1,249) | - | 5,899 | 4,650 | (8,243) |
| Total Adjustments | 1,865 | 1 | 2,326 | 4,192 | (2,106) |
| Net Cash Provided (Used) by Operating Activities | $ 609 | $ 26 | $ 32,478 | $ 33,113 | $ 87,929 |
| **Non Cash Investing, Capital and Financing Activities** | | | | | |
| Property Leased, Accrued, or Acquired | - | - | - | - | 4,093 |
| Contributed Capital Assets | - | - | 448 | 448 | 3,417 |
| Decrease of deferred revenue from the sale of liquor operations | - | 12,500 | - | 12,500 | - |
| Special Item - Transfer of assets to STAR fund | - | - | 31,787 | 31,787 | - |

The accompanying notes are an integral part of the financial statements.

# STATE OF MAINE
# STATEMENT OF FIDUCIARY NET ASSETS
### FIDUCIARY FUNDS

June 30, 2006
(Expressed in Thousands)

| | Pension (and Other Employee Benefit) Trusts | Private Purpose Trusts | Agency Funds |
|---|---|---|---|
| **Assets** | | | |
| Equity in Treasurer's Cash Pool | $ - | $ 1,118 | $ 5,605 |
| Cash and Short-Term Investments | 171,671 | 85,069 | 99 |
| Receivables, Net of Allowance for Uncollectibles: | | | |
| State and Local Agency Contributions | 28,716 | - | - |
| Loans to Institutions | - | 1,090,623 | - |
| Interest and Dividends | 28,758 | 682 | - |
| Due from Brokers for Securities Sold | 11,265 | - | - |
| Other | - | 888 | - |
| Investments at Fair Value: | | | |
| Debt Securities | 3,358,480 | - | - |
| Equity Securities | 2,446,948 | - | - |
| Common/Collective Trusts | 3,570,959 | - | - |
| Restricted Deposits & Investments | - | 104,929 | - |
| Other | 6,037 | 134,471 | - |
| Securities Lending Collateral | 2,673,921 | - | - |
| Due from other funds | - | 5,182 | - |
| Investments Held on Behalf of Others | - | 3,988,760 | 62,774 |
| Capital Assets - Net of Depreciation | 3,644 | 3,379 | - |
| Other Assets | - | 19,826 | 300 |
| Total Assets | 12,300,399 | 5,434,927 | 68,778 |
| **Liabilities** | | | |
| Accounts Payable | 1,096 | 5,366 | 164 |
| Due to Other Governments | - | 1,513 | - |
| Due to Brokers for Securities Purchased | 24,752 | - | - |
| Agency Liabilities | - | - | 68,614 |
| Obligations Under Securities Lending | 2,673,921 | - | - |
| Bonds Payable | - | 1,208,025 | - |
| Deferred Revenue | - | 774 | - |
| Other Accrued Liabilities | 27,847 | 26,802 | - |
| Total Liabilities | 2,727,616 | 1,242,480 | 68,778 |
| **Net Assets** | | | |
| Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes | 9,572,783 | 4,192,447 | - |
| Total Net Assets | $ 9,572,783 | $ 4,192,447 | $ - |

The accompanying notes are an integral part of the financial statements.

# STATE OF MAINE
# STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
## FIDUCIARY FUNDS

Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

| | Pension (and Other Employee Benefit) Trusts | Private Purpose Trusts |
|---|---|---|
| Additions: | | |
| Contributions: | | |
| Members | $ 153,031 | $ 1,919,484 |
| State and Local Agencies | 322,117 | - |
| Investment Income: | | |
| Net Increase (Decrease) in the Fair Value of Investments | 518,542 | 210,464 |
| Capital Gains Distributions from Investments | - | 65,811 |
| Interest and Dividends | 166,834 | 95,389 |
| Less Investment Expense: | | |
| Investment Activity Expense | 19,283 | - |
| Cost of Securities Lending | 909 | - |
| Net Investment Income | 665,184 | 371,664 |
| Bond and Note Proceeds | - | 242,769 |
| Received from Institutions | - | 95,409 |
| Miscellaneous Revenues | - | 21,530 |
| Total Additions | 1,140,332 | 2,650,856 |
| Deductions: | | |
| Benefits Paid to Participants or Beneficiaries | 511,197 | 1,432,171 |
| Construction and Program Costs | - | 72,885 |
| Bond Refunding and Refinancing Escrows | - | 83,799 |
| Principal Payments on Bonds | - | 43,096 |
| Interest Expense | - | 54,295 |
| Refunds and Withdrawals | 18,940 | 4,308 |
| Administrative Expenses | 9,675 | 48,455 |
| Transfers Out | - | 9,793 |
| Total Deductions | 539,812 | 1,748,802 |
| Net Increase (Decrease) | 600,520 | 902,054 |
| Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes: | | |
| Beginning of Year | 8,972,263 | 3,290,393 |
| End of Year | $ 9,572,783 | $ 4,192,447 |

The accompanying notes are an integral part of the financial statements.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# STATE OF MAINE
# STATEMENT OF NET ASSETS
## COMPONENT UNITS

June 30, 2006
(Expressed in Thousands)

| | Child Development Services | Finance Authority of Maine | Loring Development Authority | Maine Community College System | Maine Educational Center for the Deaf and Hard of Hearing |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current Assets: | | | | | |
| Equity in Treasurer's Cash Pool | $ - | $ 41,310 | $ - | $ 2,566 | $ - |
| Cash and Cash Equivalents | 2,454 | 4,552 | 799 | 10 | 566 |
| Cash with Fiscal Agent | - | - | - | - | - |
| Investments | - | 100,320 | - | 20,988 | - |
| Inventories | - | - | - | 1,192 | - |
| Receivables, Net of Allowance for Uncollectibles: | | | | | |
| Loans Receivable | - | - | - | - | - |
| Notes Receivable | - | - | 35 | - | - |
| Other Receivables | 51 | 2,472 | 185 | 3,509 | 18 |
| Due from Other Funds | - | - | - | - | - |
| Due from Other Governments | - | 1,226 | - | - | - |
| Due from Primary Government | 1,468 | - | 647 | 632 | - |
| Loans receivable from primary government | - | - | - | - | - |
| Other Current Assets | 82 | 1,984 | 55 | 523 | 1 |
| Total Current Assets | 4,055 | 151,864 | 1,721 | 29,420 | 585 |
| Noncurrent Assets: | | | | | |
| Equity in Treasurer's Cash Pool | - | 2,696 | - | 167 | - |
| Assets Held in Trust | - | - | - | - | 3 |
| Restricted Deposits and Investments | - | - | - | 585 | - |
| Investments | - | - | - | 5,604 | 698 |
| Receivables, Net of Current Portion: | | | | | |
| Loans Receivable | - | - | - | - | - |
| Notes Receivable | - | 117,559 | 1,134 | - | - |
| Other Receivables | - | - | - | - | - |
| Due from Other Governments | - | - | - | - | - |
| Due from Primary Government | - | - | - | - | - |
| Loans receivable from primary government | - | - | - | - | - |
| Capital Assets - Net of Depreciation | 646 | 1,763 | 68,515 | 88,657 | 223 |
| Other Noncurrent Assets | - | - | - | - | - |
| Total Noncurrent Assets | 646 | 122,018 | 69,649 | 95,013 | 924 |
| Total Assets | 4,701 | 273,882 | 71,370 | 124,433 | 1,509 |
| **Liabilities** | | | | | |
| Current Liabilities: | | | | | |
| Accounts Payable | 2,092 | 1,568 | 78 | 1,022 | 237 |
| Accrued Payroll | 130 | - | - | - | 665 |
| Compensated Absences | 389 | - | 39 | 1,623 | 134 |
| Due to Other Governments | - | - | 3 | - | - |
| Due to Primary Government | 618 | - | 772 | - | 145 |
| Amounts Held under State & Federal Loan Programs | - | - | - | - | - |
| Undistributed Grants and Administrative Funds | - | 9,472 | - | - | - |
| Allowances for Losses on Insured Commercial Loans | - | 6,273 | - | - | - |
| Bonds Payable | - | 53 | - | - | - |
| Obligations under Capital Leases | 11 | - | - | 1,000 | - |
| Accrued Interest Payable | - | 538 | - | - | - |
| Deferred Revenue | 82 | 1,681 | 86 | 1,355 | - |
| Other Current Liabilities | - | 48 | 254 | 7,056 | 3 |
| Total Current Liabilities | 3,322 | 19,633 | 1,232 | 12,056 | 1,184 |
| Long-Term Liabilities: | | | | | |
| Due to Other Governments | - | 1,108 | - | - | - |
| Amounts Held under State & Federal Loan Programs | - | 42,945 | - | - | - |
| Bonds Payable | - | 175,330 | - | - | - |
| Obligations under Capital Leases | 32 | - | - | 3,490 | - |
| Deferred Revenue | - | - | - | - | - |
| Other Noncurrent Liabilities | - | - | - | - | - |
| Total Long-Term Liabilities | 32 | 219,383 | - | 3,490 | - |
| Total Liabilities | 3,354 | 239,016 | 1,232 | 15,546 | 1,184 |
| **Net Assets** | | | | | |
| Invested in Capital Assets, Net of Related Debt | 603 | 1,762 | 68,287 | 84,752 | 223 |
| Restricted | 577 | 456 | - | 14,709 | 545 |
| Unrestricted | 167 | 32,648 | 1,851 | 9,426 | (443) |
| Total Net Assets | $ 1,347 | $ 34,866 | $ 70,138 | $ 108,887 | $ 325 |

The accompanying notes are an integral part of the financial statements.

| Maine Educational Loan Authority | Maine Maritime Academy | Maine Municipal Bond Bank | Maine Port Authority | Maine State Housing Authority | Maine Technology Institute | Northern New England Passenger Rail Authority | University of Maine System | Totals |
|---|---|---|---|---|---|---|---|---|
| $ - | $ 785 | $ - | $ - | $ - | $ - | $ - | $ 49,610 | $ 94,271 |
| 7,875 | 636 | 288 | 1,380 | 4,150 | 8,245 | 705 | 8,431 | 40,091 |
| - | - | - | - | - | 2,201 | - | - | 2,201 |
| - | 4,601 | 18,671 | - | 384,860 | 80 | - | 76,362 | 605,882 |
| - | 486 | - | - | - | - | 26 | - | 1,704 |
| 5,645 | 240 | - | - | 23,582 | - | - | - | 29,467 |
| - | - | - | - | 6 | - | - | 489 | 530 |
| 1,778 | 493 | 1,558 | 4 | 15,116 | 2 | 140 | 18,476 | 43,802 |
| - | - | - | - | - | - | - | 10,511 | 10,511 |
| - | - | 117,835 | - | 3,427 | 66 | 210 | 15,876 | 138,640 |
| - | - | - | - | - | - | - | - | 2,747 |
| - | - | 3,915 | - | - | - | - | - | 3,915 |
| 150 | 982 | 27,795 | - | - | - | 948 | 5,757 | 38,277 |
| 15,448 | 8,223 | 170,062 | 1,384 | 431,141 | 10,594 | 2,029 | 185,512 | 1,012,038 |
| - | 51 | - | - | - | - | - | 3,238 | 6,152 |
| - | - | - | - | - | 2,407 | - | - | 2,410 |
| - | 2,624 | 263,221 | - | 266,587 | - | 2,314 | 61,128 | 596,459 |
| 29,285 | 11,271 | - | - | 146,859 | - | - | 255,230 | 448,947 |
| 57,172 | 2,487 | - | - | 1,064,366 | 62 | - | - | 1,124,087 |
| - | - | - | 654 | 1,102 | - | - | 41,114 | 161,563 |
| 343 | 254 | - | - | - | - | - | 4,946 | 5,543 |
| - | - | 1,090,344 | - | - | - | - | (18) | 1,090,326 |
| - | - | - | - | - | - | - | 2,495 | 2,495 |
| - | - | 42,353 | - | - | - | - | - | 42,353 |
| - | 19,061 | 847 | 17,988 | 1,531 | 11 | 1,086 | 519,273 | 719,601 |
| 898 | 5,132 | 6,067 | - | 3,156 | - | - | 19,217 | 34,470 |
| 87,698 | 40,880 | 1,402,832 | 18,642 | 1,483,601 | 2,480 | 3,400 | 906,623 | 4,234,406 |
| 103,146 | 49,103 | 1,572,894 | 20,026 | 1,914,742 | 13,074 | 5,429 | 1,092,135 | 5,246,444 |
| 186 | 2,237 | 375 | 519 | 35,248 | 157 | 67 | 18,283 | 62,069 |
| - | - | - | - | - | - | - | - | 795 |
| - | - | - | - | - | - | 11 | - | 2,196 |
| 154 | - | 468 | - | 3,419 | - | - | - | 4,044 |
| - | - | - | - | - | - | - | 117 | 1,652 |
| - | - | 30,155 | - | - | - | - | - | 30,155 |
| - | - | - | - | - | - | - | - | 9,472 |
| - | - | - | - | - | - | - | - | 6,273 |
| - | 119 | 97,593 | - | 133,410 | - | - | 6,382 | 237,557 |
| - | - | - | - | - | 4 | - | 223 | 1,238 |
| 271 | - | 8,693 | - | 8,273 | - | - | - | 17,775 |
| 282 | 164 | 4,288 | - | 30,160 | 9,259 | - | 17,964 | 65,321 |
| - | 165 | - | - | - | 2,407 | - | 27,771 | 37,704 |
| 893 | 2,685 | 141,572 | 519 | 210,510 | 11,827 | 78 | 70,740 | 476,251 |
| 1,099 | 1,710 | 3,163 | - | - | - | - | - | 7,080 |
| - | - | - | - | - | - | - | - | 42,945 |
| 97,361 | 2,503 | 983,368 | - | 1,433,685 | - | - | 190,190 | 2,882,437 |
| - | - | - | - | - | 4 | - | 364 | 3,890 |
| 774 | - | - | - | - | - | - | - | 774 |
| - | - | - | - | - | - | - | 79,083 | 79,083 |
| 99,234 | 4,213 | 986,531 | - | 1,433,685 | 4 | - | 269,637 | 3,016,209 |
| 100,127 | 6,898 | 1,128,103 | 519 | 1,644,195 | 11,831 | 78 | 340,377 | 3,492,460 |
| - | 16,494 | - | 17,988 | 1,531 | - | 1,085 | 379,235 | 571,960 |
| 2,211 | 17,016 | 391,665 | 487 | 252,739 | - | 3,106 | 297,977 | 981,488 |
| 808 | 8,695 | 53,126 | 1,032 | 16,277 | 1,243 | 1,160 | 74,546 | 200,536 |
| $ 3,019 | $ 42,205 | $ 444,791 | $ 19,507 | $ 270,547 | $ 1,243 | $ 5,351 | $ 751,758 | $1,753,984 |

# STATE OF MAINE
# STATEMENT OF ACTIVITIES
## COMPONENT UNITS

Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

| | Child Development Services | Finance Authority of Maine | Loring Development Authority | Maine Community College System | Maine Educational Center for the Deaf and Hard of Hearing |
|---|---|---|---|---|---|
| **Expenses** | $ 27,801 | $ 29,572 | $ 3,488 | $ 96,422 | $ 6,312 |
| **Program Revenues** | | | | | |
| Charges for Services | 4,558 | 15,449 | 1,389 | 22,277 | 120 |
| Program Investment Income | 53 | 1,676 | - | 664 | - |
| Operating Grants and Contributions | 22,175 | 20,179 | 75 | 25,455 | 1 |
| Capital Grants and Contributions | - | - | 11 | 6,386 | - |
| Net Revenue (Expense) | (1,015) | 7,732 | (2,013) | (41,640) | (6,191) |
| **General Revenues** | | | | | |
| Unrestricted Investment Earnings | - | - | 95 | 1,135 | 33 |
| Non-program Specific Grants, Contributions and Appropriations | - | - | 930 | 43,555 | 6,097 |
| Miscellaneous Income | 170 | - | 21 | 1,471 | 259 |
| Gain (Loss) on Assets Held for Sale | - | - | 18 | 300 | 3 |
| Total General Revenues | 170 | - | 1,064 | 46,461 | 6,392 |
| Change in Net Assets | (845) | 7,732 | (949) | 4,821 | 201 |
| Net Assets, Beginning of the Year (As Restated) | 2,192 | 27,134 | 71,087 | 104,066 | 124 |
| Net Assets, End of Year | $ 1,347 | $ 34,866 | $ 70,138 | $ 108,887 | $ 325 |

The accompanying notes are an integral part of the financial statements.

| Maine Educational Loan Authority | Maine Maritime Academy | Maine Municipal Bond Bank | Maine Port Authority | Maine State Housing Authority | Maine Technology Institute | Northern New England Passenger Rail Authority | University of Maine System | Totals |
|---|---|---|---|---|---|---|---|---|
| $ 4,419 | $ 22,891 | $ 69,042 | $ 2,188 | $ 204,397 | $ 8,023 | $ 10,547 | $ 600,012 | $ 1,085,114 |
| 3,523 | 11,768 | 50,369 | 125 | 72,359 | 49 | 5,068 | 242,316 | 429,370 |
| 1,216 | 904 | (3,113) | - | 21,032 | - | - | - | 22,432 |
| - | 1,888 | 4,416 | 93 | 126,864 | 7,724 | 5,942 | 182,420 | 397,232 |
| - | 1,421 | 37,193 | 505 | - | - | 975 | 4,746 | 51,237 |
| 320 | (6,910) | 19,823 | (1,465) | 15,858 | (250) | 1,438 | (170,530) | (184,843) |
| - | 261 | 403 | 37 | 509 | 473 | 112 | 9,197 | 12,255 |
| - | 8,327 | - | - | - | - | - | 206,046 | 264,955 |
| - | 616 | 924 | - | - | 148 | - | 2,821 | 6,430 |
| - | (20) | - | - | - | - | - | - | 301 |
| - | 9,184 | 1,327 | 37 | 509 | 621 | 112 | 218,064 | 283,941 |
| 320 | 2,274 | 21,150 | (1,428) | 16,367 | 371 | 1,550 | 47,534 | 99,098 |
| 2,699 | 39,931 | 423,641 | 20,935 | 254,180 | 872 | 3,801 | 704,224 | 1,654,886 |
| $ 3,019 | $ 42,205 | $ 444,791 | $ 19,507 | $ 270,547 | $ 1,243 | $ 5,351 | $ 751,758 | $ 1,753,984 |

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Maine (the State) have been prepared under guidelines established by generally accepted accounting principles (GAAP) as mandated by the Governmental Accounting Standards Board (GASB).

Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements.

### A. REPORTING ENTITY

For financial reporting purposes, the State of Maine's reporting entity includes all funds, organizations, agencies, boards, commissions and authorities. It includes as component units those legally separate organizations for which the State is financially accountable or for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete.

GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* defines financial accountability. The State is financially accountable for those entities for which it appoints a voting majority of the governing board and either is able to impose its will on that entity or the entity may provide specific financial benefits to, or impose specific financial burdens on, the primary government. Entities for which the State does not appoint a voting majority of the governing board may be included if the organization is fiscally dependent on the primary government or if the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**Blended Component Units -** Blended component units are entities that are legally separate organizations that provide services entirely, or almost entirely, to the State or otherwise benefits the State exclusively, or almost exclusively. Therefore, the State reports these organizations' balances and transactions as though they were part of the primary government. The Maine Governmental Facilities Authority (MGFA) has been blended within the financial statements of the primary government.

The MGFA was created in 1997, as a successor to the Maine Court Facilities Authority, for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction, and equipping of additions to structures designed for use as a court facility, State office or State activity space. The MGFA is included as an internal service fund in the State's financial statements.

**Discrete Component Units -** Discrete component units are entities that are legally separate from the State but are either accountable to the State or related so closely to the State that exclusion would cause the State's financial statements to be misleading or incomplete. Component units that are not material to the State's financial statements have not been included. The column labeled "Component Units" emphasizes these organizations' separateness from the State's primary government. Because of their nature, two of the component units are reported in the fiduciary funds. Those component units are the Maine State Retirement System and the Maine Health & Higher Educational Facilities Authority. The State's material discrete and fiduciary component units are:

*The Child Development Services System* was established for the purpose of maintaining a coordinated service delivery system for the provision of Childfind activities, early intervention services, and free, appropriate public education services for eligible children with disabilities. CDS as a reporting entity includes a State-level intermediate educational unit and 16 regional intermediate educational units.

*The Finance Authority of Maine,* created in 1983, provides commercial financing and loan guarantees to Maine businesses and educational financing to Maine students and their parents. The Authority also provides financial and other services for the Potato Marketing Improvement Fund Board, the Nutrient Management Fund Board, the Northern Maine Transmission Corporation, the Adaptive Equipment Loan Program Fund Board, the Fund Insurance Review Board, the Agricultural Marketing Loan Fund Board, the Occupational Safety Program Fund Board, and the Small Business Enterprise Growth Fund Board. Additionally, the Authority administers the Maine College Savings Program. Net assets of the program, NextGen College Investing Plan, are included in the State's fiduciary fund financial statements. The Governor appoints the 15 voting members of the Authority.

*The Maine Educational Center for the Deaf and Hard of Hearing* is a comprehensive educational organization that offers educational, residential, transitional, and outreach programs while promoting deaf culture. The school offers services to meet the needs of infants, children and adults who are deaf or hard of hearing, their families, professionals, service providers, agencies and communities on a local, statewide, regional and national level. In 2006, the School changed its name from Governor Baxter School for the Deaf. The combined financial statements of the School include the activity of the School and its component unit, the Maine Foundation for the Deaf.

*The Loring Development Authority* is entrusted with investigating the acquisition, development and management of the properties within the geographical boundaries of the former Loring Air Force Base. The United States Air Force transferred title to approximately 3,600 acres of land, associated facilities, infrastructure and personal property to the Authority. The Governor appoints the 13 voting members of the Board of Trustees, subject to confirmation by the Senate. At least 7 of the members must be residents of Aroostook County; at least 4 must not be residents of Aroostook County; and one shall be a Commissioner of a department of State Government, *ex officio*.

*The Maine Community College System,* formerly the Maine Technical College System, is Maine's primary provider of post-secondary technical education leading to a certificate, diploma, or associate degree. The combined financial statements of the System include the activity of seven colleges, the central administrative office, the Center for Career Development (including the Maine Career Advantage and Maine Quality Centers programs), and its component unit, Maine Community College Educational Foundations.

*The Maine Educational Loan Authority* was created in 1988 to grant educational loans primarily using funds acquired through issuance of long-term bonds payable. The Governor appoints six of the Authority's seven commissioners who must be residents of the State. The remaining member must be the Treasurer of State, ex officio. The Authority's fiscal year ends on December 31.

*Maine Health & Higher Educational Facilities Authority* – MHHEFA assists Maine health care institutions and institutions of higher education in undertaking projects involving the acquisition, construction, improvement, reconstruction and equipping of health care and educational facilities and the refinancing of existing indebtedness. The Authority consists of 12 members, one of whom must be the Superintendent of Financial Institutions, ex officio; one of whom must be the Commissioner of Health and Human Services, ex officio; one of whom must be the Commissioner of Education, ex officio; one of whom must be the Treasurer of State, ex officio; and eight of whom must be residents of the State appointed by the Governor. The Authority, pursuant to the Student Loan Corporations Act of 1983, may finance student loan programs of institutions of higher education.

*Maine Maritime Academy* is a college specializing in ocean and marine programs at the undergraduate and graduate levels. The operation of the Academy is subject to review by the federal government. State appropriations, student fees, and a subsidy from the Maritime Administration support the Academy. The financial statements of the Academy include the activity of the college and of a wholly-owned subsidiary "Essence Limited", whose purpose is to maintain and charter certain large donated vessels owned by the Academy for use in its programs.

*The Maine Municipal Bond Bank* is authorized to issue bonds providing funds to counties, cities, towns, school administrative districts, community school districts, or other quasi-municipal corporations or eligible borrowers as designated by the Legislature (the "governmental units") within the State. The Governor appoints three residents of the State to the five-member Board of Commissioners. The remaining two members include the Treasurer of State and Superintendent of Financial Institutions who serve as commissioners, *ex officio*.

*The Maine Port Authority* was established for the general purpose of acquiring, financing, constructing and operating port terminal facilities and railroad facilities within the State. Its mission is to improve the global competitiveness of Maine businesses by developing marine and rail facilities for the intermodal movement of people and cargo. The Governor appoints four of the five members of the Board of Directors. The fifth member is the Commissioner of Transportation.

*The Maine State Housing Authority* is authorized to issue bonds for the purchase of notes and mortgages on residential units, both single and multi-family, for the purpose of providing housing for persons and families of low income in the State. The Authority also acts as an agent for the State in administering federal weatherization, energy conservation, fuel assistance and homeless grant programs and collecting and disbursing federal rent subsidies for low income housing. The Governor appoints five of the Authority's seven

commissioners. The remaining two commissioners are the Treasurer of State, ex officio, and the Director of the Maine State Housing Authority, ex officio. The Authority's fiscal year ends on December 31.

*The Maine State Retirement System* is the administrator of an agent, multiple-employer public employee retirement system. It provides pension, death, and disability benefits to its members, which include employees of the State, some public school employees, employees of approximately 267 local municipalities and other public entities in Maine. The Governor appoints four of the Board's eight voting trustees. A fifth trustee is either the Treasurer of State or the Deputy Treasurer of State.

*The Maine Technology Institute*, a nonprofit corporation which commenced operations in November 1999, was established to encourage, promote, stimulate, and support research and development activity leading to commercialization of new products and services in the State's technology intensive sectors. The Governor appoints ten of the Board's twelve voting directors. The Commissioner of Economic and Community Development, President of the Maine Community College System and the Chancellor of the University of Maine System are ex officio voting directors.

*The Northern New England Passenger Rail Authority,* established on June 29, 1995 by the State of Maine Legislature, initiates, establishes and maintains regularly scheduled passenger rail service between points within Maine to points within and outside of Maine. The Governor appoints five of the seven voting members of the Authority. The Commissioner of Transportation and Commissioner of Economic and Community Development are both directors, ex officio.

*The University of Maine System* is the State University. In 1968 all existing units of the State college system (Orono, Portland, Augusta, and the Law School) were merged by the 103rd Legislature. The result was the creation of the consolidated University of Maine System with a single Board of Trustees. The combined financial statements of the System include the activity of seven Universities, eleven centers, the central administrative office, and its component units, which include several foundations and alumni associations that raise funds on the System's behalf.

Complete financial statements of the individual component units can be obtained directly from their respective administrative offices by writing to:

Child Development Services System
146 State House Station
Augusta, ME 04333-0146

Finance Authority of Maine
5 Community Dr., PO Box 949
Augusta, ME 04332-0949

Maine Educational Center for the Deaf
and Hard of Hearing
One Mackworth Island
Falmouth, ME 04105

Loring Development Authority
154 Development Drive, Suite F
Limestone, ME 04750

Maine Community College System
323 State Street
Augusta, ME 04330-7131

Maine Educational Loan Authority
One City Center 11th Floor
Portland, ME 04101-4631

Maine Governmental Facilities Authority
PO Box 2268
Augusta, ME 04338-2268

Maine Health and Higher Ed. Facilities Authority
PO Box 2268
Augusta, ME 04338-2268.

Maine Maritime Academy
Pleasant Street
Castine, ME 04420

Maine Municipal Bond Bank
PO Box 2268
Augusta, ME 04338-2268

Maine Port Authority
16 State House Station
Augusta, ME 04333-0016

Maine State Housing Authority
89 State House Station, 353 Water Street
Augusta, ME 04330-4633

Maine State Retirement System
46 State House Station
Augusta, ME 04333-0046

Maine Technology Institute
405 Water St, Ste 300
Gardiner, ME 04345

Northern New England Passenger Rail Authority
75 West Commercial St., Suite 204
Portland, ME 04101-4631

University of Maine System
16 Central Street
Bangor, ME 04401-5106

**Related Organizations**
Officials of the State's primary government appoint a voting majority of the governing boards of the Maine Public Broadcasting Corporation, the Maine Turnpike Authority, and the Maine Veteran's Home. The primary government has no material accountability for these organizations beyond making the board appointments.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**Government-Wide Financial Statements**
The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The *Statement of Net Assets* presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

**Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

**Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports $649.3 million of restricted net assets, of which $31.9 million is restricted by enabling legislation.

**Unrestricted net assets** consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are reported as general revenues.

**Fund Financial Statements**
Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

**Measurement Focus and Basis of Accounting**
The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

As allowed by GASB Statement No. 20, the State's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles

Board Opinions, and Accounting Research Bulletins that were issued on or prior to November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the governmental funds when they become susceptible to accrual, that is, when they become both measurable and available. "Available" means earned and collected or expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the State generally considers revenues as available if they are collected within 60 days of the end of the fiscal year.

Significant revenues susceptible to accrual include: income taxes, sales and use taxes, and other taxes; federal grants; federal reimbursements; and other reimbursements for use of materials and services. Revenues from other sources are recognized when received because they are generally not measurable until received in cash. Property taxes are recognized as revenue in the year for which they are levied, provided the "available" criterion is met.

The State Tax Assessor levies taxes on properties located in the unorganized territory of Maine by August 1 of each year, and on telecommunications personal properties statewide by May 30 of each year. Unorganized territory property taxes are due on October 1 and telecommunications personal property taxes are due on August 15. Formal collection procedures begin on November 1, and unpaid property taxes become a lien no later than March 15 of the fiscal year for which they are levied.

Expenditures are generally recorded when a liability is incurred. However, expenditures related to claims and judgments, debt service and compensated absences are recorded only when they mature or become due for payment within the period.

**Financial Statement Presentation**

The State reports the following major governmental funds:

The *General Fund* is the State's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

The *Highway Fund* accounts for the regulation, construction and maintenance of State highways and bridges and is funded by motor fuel taxes, motor vehicle license and registration fees, special State appropriations, and other charges.

The *Federal Fund* accounts for grants and other financial assistance received from the federal government, including federal block grants, that are legally restricted to expenditures for purposes specified in the grant awards or agreements.

The *Other Special Revenue Fund* accounts for specific revenue sources that are legally restricted to expenditures for specified purposes, and the related current liabilities, including some major capital projects that are not accounted for in the Highway and Federal Funds.

The State reports the following major enterprise funds:

The *Maine Employment Security Fund* accounts for contributions received from employers and unemployment compensation benefits paid to eligible unemployed workers.

The *Alcoholic Beverages Fund* was established to license and regulate the sale of alcoholic beverages. During fiscal year 2004, the State of Maine entered into a 10 year contract with a vendor to manage and operate wholesale liquor distribution as the State's agent.

Additionally, the State reports the following fund types:

**Governmental Fund Types:**

*Special Revenue Funds* include operating fund activities financed by specific revenue sources that are legally restricted for specified purposes. An example is funds for acquisition of public reserved lands.

*Capital Projects Funds* account for the acquisition or construction of major capital assets and other programs financed by proceeds from bond issues.

*Permanent Trust Funds* report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry. An example is the Baxter State Park Fund.

**Proprietary Fund Types:**

*Enterprise Funds* report the activities for which fees are charged to external users for goods or services, such as lottery operations and transportation services, as well as the State's unemployment compensation program.

*Internal Service Funds* provide goods or services primarily to other agencies or funds of the State, rather than to the general public. These goods and services include printing and mailing services, supplies warehousing, information services, fleet management, risk management, health-related benefits, and financing for acquisition and construction of governmental facilities.

**Fiduciary Fund Types:**

*Pension (and Other Employee Benefit) Trust Funds* report those resources that are required to be held in trust for members and beneficiaries of the State's pension, death and disability benefit plans. These resources are managed by the Maine State Retirement System, which is presented with the State's fiduciary funds per GASB Statement No. 34.

*Private Purpose Trust Funds* report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments as well as component units which are fiduciary in nature. Examples include Abandoned Property, Public Reserved Lands, Permanent School funds, the NextGen College Investing Plan and MHHEFA.

*Agency Funds* report assets and liabilities for deposits and investments entrusted to the State as an agent for others. Examples include amounts held for payroll withholdings, inmate and student guardianship accounts.

## D. Fiscal Year-Ends

All funds and discretely presented component units are reported using fiscal years which end on June 30, except for the Maine Educational Loan Authority and the Maine State Housing Authority, which utilize December 31 year-ends.

## E. Assets, Liabilities, and Net Assets/Fund Balance

**Equity in Treasurer's Cash Pool**

The State follows the practice of pooling cash and cash equivalents for a variety of State agencies and public sector entities. The pooled balances are reported at fair value. Interest earned on pooled cash is allocated to the various funds, generally based on their average equity balances. The Treasurer's Cash Pool has the general characteristics of a demand deposit account and is comprised primarily of prime commercial paper, repurchase agreements, U.S. Treasury Bills, U.S. Treasury Notes, and other U.S. Agency Obligations, certificates of deposit, and corporate bonds.

For those component units that participate in the cash pool, equity in the cash pool is shown at fair value.

**Cash and Cash Equivalents**

Cash equivalents consist of short-term, highly liquid investments that are both readily convertible to known amounts of cash and are near maturity. On the Statement of Cash Flows, the amount reported as "Cash and Cash Equivalents" is equal to the total of the amounts reported on the Statement of Net Assets as "Equity in Treasurer's Cash Pool," "Cash and Cash Equivalents," "Cash with Fiscal Agent," "Restricted Equity in Treasurer's Cash Pool," and "Restricted Deposits and Investments."

**Cash with Fiscal Agent**

Cash with Fiscal Agent in the Governmental Funds represents cash that will be used for debt service on bonds, the unspent proceeds of bonds and Certificates of Participation, as well as unspent funds of the Maine Biological Research Board being held by the State.

Cash with Fiscal Agent in Proprietary Funds represents proceeds of Certificates of Participation and other financing arrangements that have not been spent.

Other investments of the State are carried at fair value. Donated investments are stated at fair value at the date of donation.

**Investments Held on Behalf of Others**

These assets include amounts held by the State in a fiduciary capacity, acting as either a trustee or an agent for individuals, organizations or other funds. Generally, these investments are reported at fair value or at

amortized cost which approximates fair value. The State also holds $177 million of Workers' Compensation, $41 million of Bureau of Insurance, and $26 million of Maine Department of Labor surety bonds and letters of credit that are not reflected on the financial statements.

**Restricted Deposits and Investments**
Restricted deposits and investments include: unemployment tax receipts deposited with the United States Treasury that are drawn down to pay unemployment benefits; cash and investments of the Maine Governmental Facilities Authority, a blended component unit that has been independently audited; unspent bond proceeds, and funds that have been invested in Certificates of Deposit and other investments at various financial institutions within the State. The financial institutions lend these deposits and investments to local commercial and agricultural enterprises to foster economic growth in Maine.

**Inventories**
The costs of materials and supplies of the Governmental Funds are reported as expenditures when purchased. Undistributed vaccines and food commodities at fiscal year end are reported as inventory and deferred revenue in the Federal Fund. Revenues and corresponding expenditures are recognized when food stamps are used (EBT cards), and when vaccines and food commodities are issued. Inventories of materials and supplies in the Proprietary Funds are determined by physical counts and by perpetual inventory systems. Proprietary Fund inventories are stated at cost or average cost.

Inventories included in the component unit column are stated at the lower of cost or market (using the first-in, first-out method).

**Receivables**
Receivables consist primarily of amounts due to the State from taxpayers and service providers. Also included in receivables are amounts due but not yet remitted to the State from lottery sales by agents. Loans receivable for the primary government represent low interest financing arrangements to construct and modernize agricultural storage facilities and local commercial enterprises, as well as Department of Transportation loans to local governments. Receivables in the component units column arise in the normal course of business. Receivables are stated net of estimated allowances for uncollectible amounts that are determined based upon past collection experience and aging of the accounts. Receivables that are due from related providers for interim payments are $247 million, net of an allowance for uncollectible amounts of $21.3 million.

**Interfund Transactions and Balances**
Numerous transactions are made between funds to finance operations, provide services, and acquire or construct assets. To the extent that transactions between funds were not completed as of June 30, interfund receivables and payables have been recorded in the fund financial statements. Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities and the amount the General Fund owes the Escheat Fund.

Long-term loans made by one fund to another are classified as "Working Capital Advances Receivable" and "Working Capital Advances Payable." In the fund financial statements, advances receivable are offset by reservations of fund balance indicating that the reserves do not constitute expendable financial resources.

**Due from/to Primary Government/Component Units**
Numerous transactions are made between the primary government and component units to finance operations, provide services, acquire or construct assets, or repay bonds. To the extent that transactions between funds were not completed as of June 30, "Due from Primary Government" and "Due to Component Unit" receivables and payables have been recorded.

**Due from/to Other Governments**
Due from/to Other Governments represents amounts receivable from or payable to municipalities or the federal government. Due from Other Governments represents primarily federal grants receivable for Medicaid claims, other health and human services programs, and federal grants receivable for transportation-related expenditures. Due from Other Governments in the component units column represents amounts receivable for grants, bond repayment and retirement benefits. Due to Other Governments are primarily amounts owed to municipalities for Municipal Revenue Sharing and the federal government for Medicaid cost recoveries from providers.

**Capital Assets**
Capital assets, which include land, buildings, equipment and infrastructure assets (i.e., roads, bridges, ramps and similar items), are reported in the government-wide statements and applicable fund financial statements. Capital assets that are used for governmental activities are only reported in the government-wide statements. The State capitalizes governmental fund buildings valued at $1 million or more and proprietary fund buildings valued at $10 thousand or more. Governmental fund equipment is capitalized at $10 thousand or more and

proprietary fund equipment is capitalized $3 thousand or more. All land, regardless of value, is capitalized. Capital assets are recorded at cost or, if not purchased, at fair value at date of acquisition. The historical cost for some capital assets is not available. The cost of these assets, at the date of acquisition, has been estimated. No interest has been capitalized on self-constructed assets, since non-capitalization of interest does not materially affect the financial statements.

In the government-wide statements, depreciation is reported on a straight-line basis over the assets' estimated useful lives, which are 10-40 years for buildings and improvements, and 2-25 years for equipment. The State uses the modified approach for reporting its significant infrastructure assets. As long as the State's infrastructure assets are maintained and preserved at pre-determined condition levels, maintenance costs are expensed and depreciation is not reported. This approach is discussed further in the Required Supplementary Information.

Fixed assets of component units are capitalized upon purchase and depreciated over their estimated useful lives. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are 5–60 years for structures and improvements and 3–15 years for equipment, furniture, fixtures and vehicles. Component units reflect infrastructure in improvements other than buildings and record depreciation expense on them.

**Accounts Payable**

Accounts payable represent the gross amount of expenditures or expenses that have been incurred as a result of normal operations, but for which no actual payment has yet been issued to vendors/providers. Incurred but not paid (IBNP) Medicaid claims settlements; however, are actuarially estimated. The estimate at June 30, 2006 is $520 million.

**Tax Refunds Payable**

The amount of collected or accrued tax revenues that will be refunded is estimated and accrued as a General Fund liability.

**Claims Payable**

Claims payable represent workers' compensation, retiree health, employee health, and other claims payable, including actual claims submitted and actuarially determined claims incurred but not reported. The actuarially determined claims liability is discounted and presented at net present value.

**Compensated Employee Absences**

In the government-wide statements and proprietary fund financial statements, compensated absences are recorded as expenses and liabilities as they accrue. In the governmental fund financial statements, vested or accumulated leave expected to be liquidated with current available financial resources is reported as an expenditure and fund liability. In the discretely presented component units, employees' accumulated compensated absences are recorded as an expense and liability as the benefits accrue.

**Deferred Revenue**

In the government-wide statements and proprietary fund financial statements, deferred revenue is recognized when cash, receivables, or other assets are received prior to their being earned. In the governmental fund statements, amounts recorded as receivable that do not meet the "availability" criterion for recognition as revenue in the current period are classified as deferred revenue. Resources received by the government before it has a legal claim to them are also included as deferred revenue. Deferred revenue reported in the General Fund is comprised of sales and income taxes. Deferred revenue in the Federal Fund is primarily for food commodities and vaccines not yet issued. Deferred revenue in the Alcoholic Beverages Fund is comprised of the proceeds from the sale of the State's liquor operations.

**Pledged Future Revenues**

In the Statement of Net Assets, the amount of bond proceeds received by a component unit for unmatured GARVEE bond proceeds is called "Pledged Future Revenues." The offsetting receivables are classified as "Loans Receivable from Primary Government."

**Long-Term Obligations**

In the government-wide statements and proprietary fund financial statements, long-term debt and other long-term obligations are recorded as liabilities.

In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources.

**Net Assets/Fund Balances**

The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund statements, and "Fund Balances" on governmental fund statements.

**Fund Balance Reservations**
Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reserved fund balances reflect either: funds legally restricted for a specific future use or assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes of the fund.

The State reported the following fund balance reservations:

*Continuing Appropriations* - indicates appropriations and encumbrances that the Legislature has specifically authorized to be carried into the next fiscal year, if unexpended.

*Debt Service* - indicates amounts reserved for payment of future debt service obligations.

*Capital Projects* - indicates a legally segregated portion of funds available to finance the construction of major capital facilities.

*Permanent Trusts* – indicates assets reserved for the purpose of the permanent fund.

*Other* - indicates fund balance reserved for other specified purposes including amounts for working capital needs, long-term loans to other funds, transfers to other funds, and contingency funds from which the Governor may allocate sums for various purposes.

### F. REVENUES AND EXPENDITURES/EXPENSES

In the government-wide Statement of Activities, revenues
and expenses are segregated by activity (governmental or business-type), then further by function (e.g., governmental support & operations, education, health & human services, etc). Additionally, revenues are classified between program and general revenues. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "dedicated" or "undedicated." Undedicated revenues are available to fund any activity accounted for in the fund. Dedicated revenues are, either by State law or by outside restriction (e.g., federal grants), available only for specified purposes. Unused dedicated revenues at year-end are recorded as reservations of fund balance. When both dedicated and undedicated funds are available for use, it is the State's policy to use dedicated resources first.

In the governmental fund financial statements, expenditures are reported by function. Capital outlay expenditures for real property or infrastructure (e.g. highways) are included with expenditures by function.

## NOTE 2 – BUDGETING AND BUDGETARY CONTROL, AND LEGAL COMPLIANCE

**Appropriation Limits**
The total General Fund appropriation for each fiscal year of the biennium in the Governor's budget submission to the Legislature may not exceed the General Fund appropriation of the previous fiscal year multiplied by one plus the average real personal income growth rate, as defined in Title 5 MRSA § 1665, subsection 1, plus the average forecasted inflation rate. "Average forecasted inflation rate" means the average forecasted change in the Consumer Price Index underlying the revenue projections developed by the Revenue Forecasting Committee.

This appropriation limitation may be exceeded only by the amount of the additional costs or the lost federal revenue from the following exceptional circumstances: unfunded or under-funded new federal mandates; losses in federal revenues or other revenue sources; citizens' initiatives or referenda that require increased State spending; court orders or decrees that require additional State resources to comply with the orders or decrees; and sudden or significant increases in demand for existing State services that are not the result of legislative changes that increased eligibility or increased benefits.

The Governor may designate exceptional circumstances that are not explicitly defined, but meet the intent of, this statute. "Exceptional circumstances" means an unforeseen condition or conditions over which the Governor and the Legislature have little or no control. Exceptional circumstances do not apply to new programs or program expansions that go beyond existing program criteria and operation.

**Budget Stabilization Fund**
The Maine Budget Stabilization Fund, established in 2003 in Chapter 451, Public Laws 2003 to replace the Maine Rainy Day Fund, is a designation included in the negative $355.4 million unreserved General Fund fund balance intended to be used when revenues are under budget and critical services must be preserved. The Governor may also allocate funds from the Budget Stabilization Fund for payment of death benefits for law enforcement officers, firefighters and emergency medical services persons.

Balances in the fund do not lapse, but carry forward each year. The money in the fund may be invested with any earnings credited to the fund except when the fund is at its statutory cap. In addition to interest earnings, the fund is capitalized at the close of each fiscal year. As the third priority before any other transfer, the State Controller is required to transfer 35% of the unappropriated surplus of the General Fund, when the fund is not at its statutory cap. In accordance with statute, the State Controller made the required transfer for fiscal year 2006.

The statutory cap for the fund is 12% of the total General Fund revenue received in the immediately preceding fiscal year. At the close of the fiscal year, the cap is based on the revenue received in the fiscal year being closed. Based on fiscal year 2006 actual General Fund revenue, the statutory cap at the close of fiscal year 2006 and during fiscal year 2006 was $352.2 million. At the close of fiscal year 2006, the balance of the Maine Budget Stabilization Fund was $79.9 million. No reductions to the Maine Budget Stabilization Fund balance are required when it exceeds the balance of the statutory cap as a result of a decline of General Fund revenue.

**Budget Stabilization Fund Activity**
(Expressed in Thousands)

| | |
|---|---|
| Balance, beginning of year | $ 47,071 |
| Increase in fund balance | 32,832 |
| Balance, end of year | $ 79,903 |

**Budgetary Overexpenditures**
Budgetary control is maintained at the program and line category level at which appropriations and allocations are approved by the Legislature, principally through a quarterly allotment system. The State Budget Officer and the Governor must approve budget revisions during the year, reflecting program changes or intradepartmental administrative transfers.

Except in specific instances, only the Legislature may transfer appropriations between departments. Increases in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budget. For the year ended June 30, 2006, the legislature approved $218 million of supplemental appropriations for the General Fund.

Actual expenditures did not exceed legislatively authorized appropriations at the Department level; therefore, the State complied with all related budget laws.

## NOTE 3 - ACCOUNTING CHANGES AND RESTATEMENTS

**Accounting Changes**
During fiscal year 2006, the State implemented the Governmental Accounting Standards Board (GASB) Statement No. 44, *Economic Condition Reporting: The Statistical Section.* The statement established and modified requirements related to the supplementary information presented in the statistical section of this report. The objectives of statistical section information are to provide financial statement users with additional historical perspectives, context, and detail to assist in using the information in the financial statements.

During fiscal year 2006, the State also implemented the following GASB Statements:

No. 42 –*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*

No. 46 – *Net Assets Restricted by Enabling Legislation*

No. 47 – *Accounting for Termination Benefits*

**Changes in Accounting Principle**
The State has made a change in its accrual for incurred but not paid (IBNP) Medicaid claims settlements, which are actuarially estimated. The estimate at June 30, 2006 was $520 million. Receivables that were due from related providers for interim payments are $247.4 million, net of an allowance for uncollectible amounts. In fiscal year 2005, these amounts were recorded as a net

liability of $194 million, as the receivable amount could not be readily determined. In fiscal year 2006, the providers have agreed in theory to amounts owed to the State, and strides are being made in collections. There was no impact on fund balance as a result of this change.

**Changes in Classification**

The State recorded certain grants received by the Department of Transportation for $183.7 million as operating grants and contributions in the current year. In the prior year $172.6 million had been recorded as capital grants and contributions.

In prior years, the Maine Budget Stabilization Fund was reported as a General Fund fund balance reservation. Since GASB clarified its definition of fund balance reservations, the State reclassified it as part of the designated fund balance which is included in the unreserved fund balance.

**Change in Accounting Estimate**

The State has made a change in accounting estimate for allowance for doubtful accounts related to amounts receivable from healthcare providers for audit settlements. Due to many of the accounts being more than one year old, an estimate of $31 million was recorded in fiscal year 2006, and none in fiscal year 2005.

**Restatement – Primary Government**

The beginning general fund balance was reduced by $137.3 million to reflect a change in recognizing individual and corporate income taxes and sales and use taxes. Revenues are considered available if collected within 60 days of year-end. The State had reported revenues as available if collected within 12 months of year-end. The change was made to more accurately reflect financial resources available to pay liabilities of the current period. Beginning general fund balance was increased by $2.3 million for a revenue recognition item. The beginning net assets on the Governmental Activities in the Statement of Net Assets were increased $23.2 million for assets that should have been capitalized in the prior period.

Beginning net assets in the governmental funds balance sheet, special revenue fund, increased by $1.6 million to correct errors in reported federal revenue.

**Restatement – Component Units**

Beginning net assets on the Statement of Activities increased $869 thousand with the inclusion of Maine Technology Institute as a reported component unit.

## NOTE 4 - DEFICIT FUND BALANCES/NET ASSETS

Four internal service funds showed deficit Net Assets for the fiscal year ended June 30, 2006. The Workers' Compensation Fund reported a deficit of $29 million, which reflects accruals for actuarially determined claims payable. The Leased Space Fund had a fund balance deficit of $4 million because rates charged were insufficient to cover expenses incurred. The Postal, Printing & Supply fund reported a deficit of $101 thousand because expenses are recognized when incurred; however, related revenue is not earned until jobs are satisfactorily completed. The Financial & Personnel Services Fund had a fund balance deficit of $1.2 million because rates charged were insufficient to cover expenses incurred. All of the deficits mentioned above are expected to be funded by future service charges.

The Alcoholic Beverages Enterprise Fund shows a deficit of $100 million. During fiscal year 2004, the State of Maine entered into a 10 year contract with a vendor to manage and operate wholesale liquor distribution as the State's agent. The deficit reflects the deferral of license fees that will be amortized over that 10 year period.

The General Fund shows a deficit fund balance of $177.6 million at June 30, 2006 and a deficit of $88.6 million at June 30, 2005, as restated. The change in recognizing incomes, sales, and fuel taxes to 60 days from one year decreased the beginning fund balance by $137.3 million. Also as a result of the change in revenue recognition, accrued Medicaid liabilities reflect the total amounts owed, but revenues that will finance these amounts are only for 60 days. The Medicaid liabilities are expected to be paid in the ensuing year.

## NOTE 5 - DEPOSITS AND INVESTMENTS

The deposit and investment policies of the State of Maine Office of the Treasurer are governed by Title 5 of the Maine Revised Statutes Annotated (MRSA). Per 5 MRSA § 135, the Treasurer may deposit State funds, including trust funds of the State, in any of the banking institutions (including trust companies, State or federal savings and loan associations, and mutual savings banks) organized under the laws of this State and any national bank or federal savings and loan association located in the State.

The State follows the practice of pooling cash and cash equivalents for a variety of State agencies and public sector entities. The Treasurer may invest funds that exceed current obligations, with the concurrence of the State Controller or the Commissioner of Administrative and Financial Services and the consent of the Governor.

Approved investments include bonds, notes, certificates of indebtedness, other obligations of the United States that mature not more than 36 months from the date of investment; repurchase agreements secured by obligations of the United States that mature within the succeeding 12 months; prime commercial paper; tax-exempt obligations; corporate bonds rated "AAA" that mature within 36 months from the date of investment; banker's acceptances; and "no-load" shares of an investment company registered under the Federal Investment Company Act of 1940, whose shares maintain a constant share price. Although authorized to do so, the Treasurer does not participate in the securities loan market.

Investment policies of the permanent trusts are governed by 5 MRSA § 138. The Treasurer, with the approval of the Commissioner of Administrative and Financial Services, the Superintendent of Financial Institutions and the Attorney General, shall invest the funds in securities that are legal investments in accordance with Title 9-B, MRSA. The investments need not be segregated to the separate trusts, but the identity of each trust must be maintained. The Treasurer may enter into custodial care and servicing contracts or agreements negotiated in accordance with the laws of this State for the handling of funds held in trust.

No amounts exceeding 25% of the capital, surplus, and undivided profits of any trust company or national bank or 25% of the reserve fund and undivided profits of a mutual savings bank or State or federal savings and loan association, shall be on deposit in any one institution at any one time. This restriction does not apply to deposits subject to immediate withdrawal to meet the payment of any bonded debt or interest or to pay current bills or expenses of the State. Also exempt are deposits secured by the pledge of certain securities as collateral or fully covered by insurance.

With assistance from the Finance Authority of Maine, the Treasurer participates in a restricted deposit program to encourage banks to provide loans at two percent below market rates. The Treasurer may invest up to $8 million in lending institutions at a two percent lower-than-market rate provided the lenders pass the rate reduction on to the borrowers. $4 million of this program are earmarked for loans to agricultural enterprises, and the other $4 million are designated for commercial entities.

The Primary Government's Deposits and Investments excluding component units that are fiduciary in nature at June 30, 2006 consisted of:

**Primary Government Deposits and Investments**
**(Expressed in Thousands)**

| | Governmental Activities | Business-Type Activities | Private Purpose Trusts (1) | Agency Funds | Total |
|---|---|---|---|---|---|
| Equity in Treasurer's Cash Pool | $570,088 | $ 23,689 | $ 1,118 | $ 5,605 | $ 600,500 |
| Cash and Cash Equivalents | 277 | 757 | - | 72 | 1,106 |
| Cash with Fiscal Agent | 21,400 | - | - | 27 | 21,427 |
| Investments | 70,790 | - | 10,654 | - | 81,444 |
| Restricted Equity in Treasurer's Cash Pool | 16,858 | - | - | - | 16,858 |
| Restricted Deposits and Investments | 23,802 | 449,748 | - | - | 473,550 |
| Investments Held on Behalf of Others | - | - | 3,988,760 | 62,774 | 4,051,534 |
| Other Assets | - | - | 16,287 | 300 | 16,587 |
| Total Primary Government | $703,215 | $474,194 | $4,016,819 | $68,778 | $5,263,006 |

1) Maine Health & Higher Educational Facilities Authority, a component unit that is fiduciary in nature, has been excluded.

*Interest Rate Risk* – Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. In general, the State holds securities to maturity. All debt securities are reported at full-term.

The following table provides the segmented time distribution of the Primary Government's investments at June 30, 2006:

| | Maturities in Years (Expressed in Thousands) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Less than 1 | 1-5 | 6-10 | 11-20 | More than 20 | No Maturity | Fair Value |
| *Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds* | | | | | | | |
| US Instrumentalities | $ 63,945 | $ 28,381 | $ - | $ - | $ - | $ - | $ 92,326 |
| US Treasury Notes | 8,599 | 8,359 | - | - | - | - | 16,958 |
| Repurchase Agreements | 25,026 | - | - | - | - | - | 25,026 |
| Corporate Notes and Bonds | 2,525 | 1,499 | - | - | - | - | 4,024 |
| Commercial Paper | 192,208 | - | - | - | - | - | 192,208 |
| Certificates of Deposit | 11,398 | | - | - | - | - | 11,398 |
| Money Market | 291,387 | - | - | - | - | - | 291,387 |
| Cash and Cash Equivalents | - | - | - | - | - | 2,145 | 2,145 |
| Unemployment Fund Deposits with US Treasury | - | - | - | - | - | 449,748 | 449,748 |
| *Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds* | | | | | | | |
| US Instrumentalities | 922 | 4,930 | 2,372 | 1,800 | 3,931 | 4 | 13,959 |
| US Treasury Notes | 6,415 | 13,930 | 5,690 | 7,048 | 3,640 | - | 36,723 |
| Repurchase Agreements | 26 | - | - | - | - | - | 26 |
| Corporate Notes and Bonds | 680 | 6,994 | 800 | 306 | 1,781 | - | 10,561 |
| Other Fixed Income Securities | - | 107 | 199 | - | - | - | 306 |
| Commercial Paper | 2,116 | - | - | - | - | - | 2,116 |
| Certificates of Deposit | 125 | - | - | - | - | - | 125 |
| Money Market | 3,208 | - | - | - | - | 4,164 | 7,372 |
| Cash and Cash Equivalents | - | - | - | - | - | 26,827 | 26,827 |
| Equities | - | - | - | - | - | 52,986 | 52,986 |
| Other | - | - | - | - | - | 11 | 11 |
| | $ 608,580 | $ 64,200 | $ 9,061 | $ 9,154 | $ 9,352 | $ 535,885 | $ 1,236,232 |
| NextGen College Investing Plan | | | | | | | 3,988,760 |
| Other Assets | | | | | | | 16,587 |
| Cash with Fiscal Agent | | | | | | | 21,427 |
| Total Primary Government | | | | | | | $ 5,263,006 |

*Credit Risk* – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This credit risk is measured by the credit quality ratings of investments as described by nationally recognized statistical rating organizations. To the extent possible in the Treasurer's Cash Pool, at least 30% of the portfolio shall be invested in U.S. Treasury, Federal Agency or Federal Instrumentality securities, or Repurchase Agreements. The State limits credit risk in its trusts by ensuring that at least 85% of the debt securities are rated A or better.

The Primary Government's total investments by credit quality rating as of June 30, 2006 is presented below:

**Standard & Poor's Credit Rating (Expressed in Thousands)**

| | A1 | A | AA | AA+ | AAA | BB | BBB | Not Rated | Total |
|---|---|---|---|---|---|---|---|---|---|
| *Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds* | | | | | | | | | |
| US Instrumentalities | $ - | $ - | $ - | $ - | $ 92,326 | $ - | $ - | $ - | $ 92,326 |
| US Treasury Notes | - | - | - | - | 16,958 | - | - | - | 16,958 |
| Corporate Notes and Bonds | - | - | - | 2,525 | 1,499 | - | - | - | 4,024 |
| Commercial Paper | 158,363 | - | - | - | - | - | - | 33,845 | 192,208 |
| Money Market | - | - | - | - | - | - | - | 291,387 | 291,387 |
| *Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds* | | | | | | | | | |
| US Instrumentalities | - | - | 98 | - | 4,042 | - | - | 9,819 | 13,959 |
| US Treasury Notes | - | - | - | - | 36,373 | - | - | 350 | 36,723 |
| Corporate Notes and Bonds | - | 3,973 | 895 | 27 | 1,757 | 118 | 740 | 3,051 | 10,561 |
| Commercial Paper | 1,743 | - | - | - | - | - | - | 373 | 2,116 |
| Money Market | - | - | - | - | - | - | - | 7,372 | 7,372 |
| Other Fixed Income Securities | - | - | 180 | - | - | - | - | 126 | 306 |
| Total Primary Government | $ 160,106 | $ 3,973 | $ 1,173 | $ 2,552 | $ 152,955 | $ 118 | $ 740 | $346,323 | $ 667,940 |

*Concentration of Credit Risk* –Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State limits concentration of credit risk in its trusts by requiring that no single stock represent more than 10 percent of the total portfolio. There is no concentration of credit risk policy for the Treasurer's Cash Pool. At June 30, 2006, more than 5% of the cash pool's investments were in FHLB, Citizens Bank, and TD Banknorth. These investments are $45.5 million (5.8%), $205 million (26.3%), and $174.4 million (22.4%), respectively, of the cash pool's total investments.

*Custodial Credit Risk* - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State limits its custodial credit risk for the Treasurer's Cash Pool by maintaining a file of the most recent credit rating analysis reports performed for each approved financial institution. The State also requires that all securities be perfected in the name of the State and held in third party safekeeping by a state approved custodian. The State does not have a policy regarding custodial credit risk for its trusts. Of the cash pool's $13.7 million invested in non-negotiable certificates of deposit, $6.9 million exceed the FDIC insured amounts for the institutions at which they were held. The Percival P. Baxter Trust is held by the counterparty's trust department, but not in the State's name. The fair value of the trust's investments as of June 30, 2006 was $59.5 million and was comprised of the following investments (in thousands):

| | |
|---|---|
| U.S. Instrumentalities | $ 7,794 |
| US Treasury Notes | 4,107 |
| Corporate Notes and Bonds | 5,049 |
| Other fixed Income Securities | 306 |
| Equities | 40,411 |
| Cash and Equivalents | 1,801 |
| Other | 11 |
| Total | $ 59,479 |

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to the vendors. During fiscal year 2006, these disbursements, on average, exceeded $157 million per month. The funds in transit are not collateralized and are not held by the State Treasurer. Until the vendor receives payment, the State retains some liability.

**MAINE STATE RETIREMENT SYSTEM**

The Maine State Retirement System (The System) makes investments in a combination of equities, fixed income securities, mutual funds, commingled mutual and index funds, derivative financial instruments, and other investment securities established by the Trustee's investment policy. The System prohibits its investment managers from using leverage in its derivative financial instruments or from investing in speculative positions.

*Securities Lending* - The System has also entered into agreements for securities lending transactions, which are collateralized in an amount at least equal to 102 percent (105 percent for international securities) of the market value of the securities loaned. All securities and loans can be terminated on demand by either the lender or the borrower.

Cash open collateral is invested in a short-term investment pool, the Global Core Collateral Section. Cash collateral may also be invested separately in "term loans." At June 30, 2006, all of the collateral for securities lending is subject to custodial credit risk. The System believes that there is no credit risk as defined in GASB Statement No. 28 and GASB Statement No. 40. The collateral held and the market value of securities on loan for the System as of June 30, 2006 were $3.1 billion and $3.1 billion, respectively. These amounts include assets of the State and local participating entities plans.

**NEXTGEN COLLEGE INVESTING PLAN**

The Maine College Savings Program Fund (the Fund) doing business as NextGen College Investing Plan (the Program), was established in accordance with Title 20-A MRSA §11473, to encourage the investment of funds to be used for Qualified Higher Education Expenses at institutions of higher education. The Program is designed to comply with the requirements for treatment as a Qualified State Tuition Program under Section 529 of the Internal Revenue Code.

The statute authorizes the Finance Authority of Maine ("FAME") to administer the Program and act as administrator of the Fund. The Fund is held by the Treasurer of the State who invests it under the direction of and with the advice of a seven member Advisory Committee on College Savings, which is chaired by the Treasurer. FAME and the Treasurer have selected Merrill Lynch as the Program Manager. The Program is reported as a private purpose trust fund in the financial statements of the State.

NextGen's investments are comprised of 47 different investment portfolios which are reported at fair value and total $4 billion at June 30, 2006.

*Custodial Credit Risk* – NextGen, in accordance with its Program Description, primarily invests in open-end mutual funds, which, according to GASB Statement No. 40, do not bear custodial credit risk; hence, the Program's exposure to custodial credit risk arising from its investment in mutual funds is considered to be insignificant.

The Program makes some investments in entities which are not mutual funds including a Guaranteed Investment Contract (GIC) issued by Transamerica Life Insurance Company in the Principal Plus Portfolio. Because an investment in a GIC represents a contractual investment rather than a security, it is not deemed to be subject to custodial credit risk.

The Program also invests in the Cash Allocation Account (the Account), a separate account that was established by FAME. All of the Account investments are held in either the name of the Account or the Account Agent's name, thereby minimizing the custodial credit risk.

*Credit Risk* - The Program has not established an investment policy that specifically limits its exposure to credit risk. The Program's investments in fixed income mutual funds, the Principal Plus Portfolio, and the Account may bear credit risk. The GIC underlying the Program's investment in the Principal Plus Portfolio has not been rated by any of the nationally recognized statistical rating organizations. The fair value of the GIC at June 30, 2006 was $50.9 million.

The assets of the Account are invested in a portfolio of high-quality, short-term money-market securities consisting primarily of direct U.S. Government obligations, U.S. Government agency securities, obligations of domestic and foreign banks, U.S. dollar denominated commercial paper, and other short-term debt securities issued by U.S. and foreign entities repurchase agreements. In addition, the Account invests in certificates of deposit issued by Maine financial institutions in accordance with instructions of FAME and the Treasurer. All Maine CD's are FDIC insured or fully collateralized. The value of the Account at June 30, 2006 was $219.9 million.

*Concentration of Credit Risk* – The Program has not established an investment policy that specifically limits its exposure to concentration of credit risk because the Program principally invests in mutual funds which have been excluded by GASB Statement No. 40 from its concentration of disclosure risk requirements. The Account intends to invest no more than a maximum of 10 percent of its assets in Maine CDs even though it has no prescribed limit on such investments.

*Interest Rate Risk* – The Program has not established an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Program's investments in fixed income mutual funds, the Principal Plus Portfolio, and the Account all invest in securities that are subject to interest rate risk.

Market values of the above-mentioned investments are presented below (in thousands):

| | Fair Value |
|---|---|
| Principal Plus Portfolio | $ 50,988 |
| Cash Allocation Account | 219,905 |
| Fixed Income Securities | 758,970 |
| Total Fair Value | $1,029,863 |

**COMPONENT UNITS**

Generally, component unit investment policies authorize investments in obligations of U.S. Treasury and Agency Securities, repurchase agreements, corporate bonds, certificates of deposit and money market funds. Some component units may invest in stocks, bonds, fixed income securities, mutual funds, commingled mutual funds and index funds, guaranteed investment contracts, real estate and other investment securities.

Certain component units also invest in the Treasurer's Cash Pool and comprise approximately 16 percent of pool assets. The component units reported their participation as either Cash and Cash Equivalents or Investments on their financial statements. The State reclassified $100.4 million of the component units' participation to "Equity in Treasurer's Cash Pool" on the State's financial statements. In addition to the amounts reported, the State Treasurer's Cash Pool includes $17.5 million, consisting of Finance Authority of Maine component unit fiduciary funds that, because of GASB Statement No. 34 reporting criteria, are not shown in the accompanying financial statements.

## NOTE 6 - RECEIVABLES

Receivable balances are segregated by type, classified as current and noncurrent, and presented in the fund financial statements net of allowance for uncollectibles.

The following tables disaggregate amounts considered to be uncollectible by fund and type of receivable as of the close of the fiscal year:

**Primary Government – Receivables**
(Expressed in Thousands)

| | Taxes | Accounts | Loans | Allowance for Uncollectibles | Net Receivables |
|---|---|---|---|---|---|
| **Governmental Funds:** | | | | | |
| General | $ 525,545 | $ 184,233 | $ 1 | $ (190,882) | $ 518,897 |
| Highway | 28,129 | 2,572 | 80 | (6,505) | 24,276 |
| Federal | - | 222,156 | - | (23,032) | 199,124 |
| Other Special Revenue | 13,466 | 71,757 | 4,952 | (5,719) | 84,456 |
| Other Governmental Funds | - | - | - | - | - |
| Total Governmental Funds | 567,140 | 480,718 | 5,033 | (226,138) | 826,753 |
| Allowance for Uncollectibles | (141,290) | (84,101) | (747) | | - |
| Net Receivables | $ 425,850 | $ 396,617 | $ 4,286 | | $ 826,753 |
| **Proprietary Funds:** | | | | | |
| Employment Security | $ - | $ 35,881 | $ - | $ (7,642) | $ 28,239 |
| Alcoholic Beverages | - | 6 | - | (6) | - |
| Nonmajor Enterprise | - | 25,825 | - | (529) | 25,296 |
| Internal Service | - | 7,833 | 186,215 | - | 194,048 |
| Total Proprietary Funds | - | 69,545 | 186,215 | (8,177) | 247,583 |
| Allowance for Uncollectibles | - | (8,177) | - | | - |
| Net Receivables | $ - | $ 61,368 | $186,215 | | $ 247,583 |

**Component Units - Receivables**
(Expressed in Thousands)

| | Accounts | Loans | Notes | Allowance for Uncollectibles | Net Receivables |
|---|---|---|---|---|---|
| Finance Authority of Maine | $ 2,472 | $ - | $121,121 | $(3,562) | $ 120,031 |
| Maine Educational Loan Authority | 2,121 | 64,124 | - | (1,307) | 64,938 |
| Maine State Housing Authority | 15,116 | 1,098,036 | 1,201 | (10,181) | 1,104,172 |
| University of Maine System | 25,906 | - | 42,220 | (3,101) | 65,025 |

## NOTE 7 - INTERFUND TRANSACTIONS

Interfund receivables and payables represent amounts owed to one State fund by another, for goods sold or services received, or for borrowings to eliminate negative balances in the Treasurer's Cash Pool.

Balances due within one year are recorded as Due to/Due from Other Funds. The balances of current interfund receivables and payables as of June 30, 2006 were:

**Interfund Receivables**
(Expressed in Thousands)

| | Due to Other Funds | | | |
|---|---|---|---|---|
| **Due from Other Funds** | **General** | **Highway** | **Federal Fund** | **Other Special Revenue** |
| General | $ - | $ - | $ 3,294 | $ - |
| Highway | - | - | 1,494 | - |
| Federal | 17,611 | 9 | 46 | 2,082 |
| Other Special Revenue | 546 | 187 | 459 | 432 |
| Employment Security | | - | 26 | - |
| Non-Major Enterprise | 2 | 30 | 6,716 | 2 |
| Internal Service | 8,732 | 2,828 | 2,820 | 1,259 |
| Fiduciary | 5,182 | - | - | - |
| Total | $32,073 | $3,054 | $14,855 | $3,775 |

| **Due from Other Funds** | **Alcoholic Beverages** | **Non-Major Enterprise** | **Internal Service** | **Total** |
|---|---|---|---|---|
| General | $ 1 | $10,849 | $4,531 | $18,675 |
| Highway | - | - | 218 | 1,712 |
| Federal | - | - | 218 | 19,966 |
| Other Special Revenue | | 19 | 351 | 1,994 |
| Employment Security | - | - | - | 26 |
| Non-Major Enterprise | | | 36 | 6,786 |
| Internal Service | - | 397 | 552 | 16,588 |
| Fiduciary | - | - | - | 5,182 |
| Total | $ 1 | $11,265 | $5,906 | $70,929 |

Not included in the table above are the following interfund loans/advances, which are not expected to be repaid within one year. Postal, Printing & Supply (an internal service fund) owes $111 thousand to the General Fund for operating capital.

Transfers are made in accordance with statutory authority. Significant transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the funds required to pay debt service as principal and interest payments come due, 3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Lottery Fund, and 5) transfer accumulated surpluses from other funds to the General Fund when authorized by statute.

During fiscal year 2006, the State of Maine, in accordance with the legislatively authorized budget, recorded several non-routine, nonrecurring transfers.

The General Fund transferred $13.5 million to other funds for the following purposes: $2.3 million to the Other Special Revenue Fund for the Fund for a Healthy Maine, $8.8 million to the Federal Fund for federal audit settlements within the Department of Health and Human Services, and $2.4 million to the Other Special Revenue Fund for the Clean Election fund.

The Other Special Revenue Fund transferred $7.3 million to the unappropriated surplus of the General Fund.

The Dirigo Health Fund transferred $1.1 million to the unappropriated surplus of the General Fund.

Interfund transfers for the year ended June 30, 2006, consisted of the following:

**Interfund Transfers**
(Expressed in Thousands)

| | Transferred From | | | | |
|---|---|---|---|---|---|
| **Transferred To** | **General** | **Highway** | **Federal** | **Other Special Revenue** | **Other Governmental** |
| General | $ - | $ - | $ 263 | $28,938 | $ - |
| Highway | 1,751 | - | - | - | - |
| Federal | 9,740 | - | - | 19,591 | - |
| Other Special Revenue | 138,188 | - | 13,518 | - | 4,131 |
| Other Governmental Funds | 676 | - | - | - | - |
| Employment Security | - | - | - | - | - |
| Non-Major Enterprise | 617 | 3,586 | 20 | 218 | - |
| Internal Service | 13,951 | - | - | 317 | - |
| Fiduciary | - | - | - | - | - |
| Total | $164,923 | $3,586 | $13,801 | $49,064 | $4,131 |

| | Transferred From | | | | | |
|---|---|---|---|---|---|---|
| **Transferred To** | **Alcoholic Beverages** | **Employment Security** | **Non-Major Enterprise** | **Internal Service** | **Fiduciary** | **Total** |
| General | $ 26 | $ - | $51,986 | $ - | $9,699 | $ 90,912 |
| Highway | - | - | - | - | - | 1,751 |
| Federal | - | 2,113 | 27 | - | - | 31,471 |
| Other Special Revenue | - | - | 1,997 | 1 | 94 | 157,929 |
| Other Governmental Funds | - | - | - | - | - | 676 |
| Employment Security | - | - | - | - | - | - |
| Non-Major Enterprise | - | - | 244 | - | - | 4,685 |
| Internal Service | - | - | - | - | - | 14,268 |
| Fiduciary | - | - | - | - | - | - |
| Total | $ 26 | $2,113 | $54,254 | $ 1 | $9,793 | $301,692 |

## NOTE 8 - CAPITAL ASSETS

The following schedule details changes in capital assets for the governmental activities and business-type activities of the primary government for the fiscal year ended June 30, 2006:

**Primary Government - Capital Assets**
(Expressed in Thousands)

| | Beginning Balance* | Increases and Other Additions | Decreases and Other Deletions | Ending Balance |
|---|---|---|---|---|
| **Governmental Activities:** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 383,348 | $ 41,795 | $31,074 | $ 394,069 |
| Construction in progress | 26,025 | 16,837 | 28,335 | 14,527 |
| Infrastructure | 2,636,582 | 224,940 | - | 2,861,522 |
| Total capital assets not being depreciated | 3,045,955 | 283,572 | 59,409 | 3,270,118 |
| Capital assets being depreciated: | | | | |
| Buildings | 476,315 | 33,112 | 2,546 | 506,881 |
| Equipment | 226,825 | 45,486 | 18,304 | 254,007 |
| Improvements other than buildings | 25,022 | 1,834 | 9,623 | 17,233 |
| Total capital assets being depreciated | 728,162 | 80,432 | 30,473 | 778,121 |
| Less accumulated depreciation for: | | | | |
| Buildings | 115,209 | 14,931 | 876 | 129,264 |
| Equipment | 157,675 | 21,665 | 12,527 | 166,813 |
| Improvements other than buildings | 9,632 | 1,727 | 9,331 | 2,028 |
| Total accumulated depreciation | 282,516 | 38,323 | 22,734 | 298,105 |
| Total capital assets being depreciated net | 445,646 | 42,109 | 7,739 | 480,016 |
| Governmental Activities Capital Assets net | $ 3,491,601 | $ 325,681 | $ 67,148 | $ 3,750,134 |
| **Business-Type Activities:** | | **Net Additions** | **Net Deletions** | |
| Capital assets not being depreciated: | | | | |
| Land | $ 7,304 | $30,857 | $ - | $ 38,161 |
| Construction in progress | 708 | 217 | - | 925 |
| Total capital assets not being depreciated | 8,012 | 31,074 | - | 39,086 |
| Capital assets being depreciated: | | | | |
| Buildings | 8,747 | 575 | - | 9,322 |
| Equipment | 19,904 | 405 | 89 | 20,220 |
| Improvements other than buildings | 51,410 | 9,808 | - | 61,218 |
| Total capital assets being depreciated | 80,061 | 10,788 | 89 | 90,760 |
| Less accumulated depreciation | 38,112 | 12,745 | 41 | 50,816 |
| Total capital assets being depreciated, net | 41,949 | (1,957) | 48 | 39,944 |
| Business-Type Activities Capital Assets, net | $ 49,961 | $29,117 | $ 48 | $ 79,030 |

*As Restated.*

During the fiscal year, depreciation expense was charged to the following functions in the governmental activities column of the Statement of Activities for the primary government:

**Governmental Activities - Depreciation Expense**
(Expressed in Thousands)

| | Amount |
|---|---|
| **Governmental Activities:** | |
| Arts, Heritage and Cultural Enrichment | $ 71 |
| Business Licensing and Regulation | 309 |
| Economic Development and Workforce Training | 1,009 |
| Education | 249 |
| Governmental Support and Operations | 6,237 |
| Health and Human Services | 5,216 |
| Justice and Protection | 10,004 |
| Natural Resources Development and Protection | 4,139 |
| Transportation Safety and Development | 11,090 |
| Total Depreciation Expense – Governmental Activities | $38,324 |

## NOTE 9 - MAINE STATE RETIREMENT SYSTEM

**PLAN DESCRIPTION**

The Maine State Retirement System is the administrator of an agent, multiple-employer, defined benefit public employee retirement system established and administered under the Maine State Retirement System Laws, Title 5 MRSA C. 421, 423, and 425. The System is a component unit of the State. Financial information for the System is included in the Statement of Fiduciary Net Assets and in the Statement of Changes in Fiduciary Net Assets. Additional schedules and information are presented in the accompanying Required Supplementary Information (RSI). The Maine State Retirement System issues a stand-alone financial report which includes schedules of funding progress and employer contributions. That comprehensive annual financial report for June 30, 2006 may be obtained from the Maine State Retirement System, 46 State House Station, Augusta, ME 04333.

The System provides pension, disability, and survivor benefits to its members and their beneficiaries, which include employees of the State, public school employees who are defined by Maine law as teachers for whom the State is the employer for retirement benefit contribution purposes, and employees of approximately 270 local municipalities and other public entities in Maine. These 270 entities each contract for participation in the System under provisions of relevant statutes.

At June 30, 2006, the membership consisted of:

| | |
|---|---|
| Active vested and nonvested members | 52,282 |
| Terminated vested participants | 7,141 |
| Retirees and benefit recipients | 32,918 |
| Total | 92,341 |

The System's retirement programs provide retirement benefits based on members' average final compensation and creditable service. Vesting occurs upon the earning of five years of service credit or the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age is age 60 or 62, determined by whether the member had at least 10 years of creditable service on June 30, 1993 (effective October 1, 1999, the prior ten-year requirement was reduced to five years by legislative action). The monthly benefit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The system also provides disability and survivor benefits, which are established by statute for State employee and teacher members,

and by contract with other participating employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to terminated members' accounts is set by the System's Board of Trustees and is currently 6 percent.

In the event that a participating entity withdraws from the System, its individual employee-members can terminate membership or remain contributing members. The participating entity remains liable for contributions sufficient to fund benefits for its already retired former employee-members; for its terminated vested members; and for those active employees, whether or not vested, who remain contributing System members.

Contributions from members and employers and earnings from investments fund retirement benefits. Employer contributions and investment earnings fund disability and death benefits. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the terms of the plan under which a member is covered. Employer contribution rates are determined by annual actuarial valuations.

The total funds managed by the System are constitutionally restricted, as held in trust, for the payment of pension and related benefits to its members. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs separate actuarial valuations for each participating entity's respective plan.

The Maine State Retirement System management's interpretation of the State of Maine statutes is that all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any plan members or beneficiaries. The System is therefore regarded as administering an agent multiple employer plan. The statements include $2 billion of assets related to the participating local entities. The Attorney General's Office does not concur that these assets are available for payment of State benefits.

The System also provides group life insurance under a plan that is administered by a third party insurance company. Premiums paid, by or on behalf of those covered, are set and collected by the System. The insurance company makes benefit payments. The System remits payments to the insurance company in the amount of benefits paid out and additional payments representing administrative fees.

**FUNDING POLICY**

The Maine Constitution, Maine Statutes and the System's funding policy provide for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate adequate assets to pay benefits when due.

Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over a closed period that cannot be longer than 31 years from July 1, 1997 but may be, and at certain times has been, shorter than that period. In 2000, the amortization period was reduced to a 19-year period from June 30, 2000. In 2004, the Legislature relengthened the period to 25 years, the full extent of the then-remaining Constitutional years for the 2004-2005 biennium, and reshortened the period effective July 1, 2005 to the 13 years that will then remain in the earlier shortened period. In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 11 years remained at June 30, 2006.

For participating local districts, either the level percentage of payroll method or the level dollar method is used, depending on plan structure, status of the participating local district, nature of the unfunded liability, and the amount of the unfunded liability. Amortization periods range from 4 years to 16 years.

In order to reduce any unfunded pension liability for State employees and teachers, the State is required to remit 20% of its General Fund unappropriated surplus to the System at year end. For fiscal 2006, this additional contribution was approximately $17.5 million. The amount will be paid by the State after year end.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension obligation.

The actuarially determined contribution rates in effect for 2006 for participating entities are:

| | |
|---|---|
| State: | |
| Employees[1] | 7.65-8.65% |
| Employer[1] | 15.09-45.94% |
| Teachers: | |
| Employees | 7.65% |
| Employer | 17.23% |
| Participating Local Entities: | |
| Employees[1] | 3.0-8.0% |
| Employer[1] | 1.5-6.5% |

[1] Contribution rates vary depending on specific terms of plan benefits for certain classes of employees and/or, in the case of participating local districts (PLDs), on benefit plan options selected by a particular participating local entity. Withdrawn entities' contributions are set in dollar amounts, not as rates.

### ANNUAL PENSION COST AND NET PENSION OBLIGATION

The State is one of several employers whose employees are System members. The State's net pension obligation shown at the end of the year includes the pension liability related to its employees. It does not include the pension liability related to participating local districts. The State's annual pension cost and net pension obligation to the System for the current year were:

**Net Pension Obligation**
(Expressed in Thousands)

| | |
|---|---|
| Annual required contribution | $286,439 |
| Interest on net pension obligation | 2,739 |
| Adjustment to annual required contribution | (1,925) |
| Annual pension cost | 287,253 |
| Contributions made | 303,439 |
| Increase (decrease) in net pension obligation | (16,186) |
| Net pension obligation beginning of year | 34,236 |
| Net pension obligation end of year | $ 18,050 |

**Analysis of Funding Progress**
(Expressed in Thousands)

| Year | Annual Pension Cost | Percentage Covered | Net Pension Obligation |
|---|---|---|---|
| 2006 | $287,253 | 105.63% | $18,050 |
| 2005 | 262,874 | 104.50% | 34,236 |
| 2004 | 253,282 | 107.98% | 46,060 |

The annual required contribution for the current year was determined as part of the June 30, 2006 actuarial valuation using the entry age normal cost method based on a level percentage of covered payrolls. The actuarial assumptions included (a) 7.75% return on investments, and (b) projected salary increases of 4.75% to 10 % per year, including cost of living. The assumptions include post retirement benefit increases of 3.75% per annum. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over a 24 year period from June 30, 2004. For participating local districts, either the level percentage of payroll method or the level dollar method is used, depending on plan structure, status of the participating local district, nature of the unfunded liability, (i.e., separate or pooled) and the amount of the unfunded liability. Amortization periods range from 4 to 16 years.

### COMPONENT UNIT PARTICIPANTS

The Maine Municipal Bond Bank, Maine Maritime Academy, and the Maine State Retirement System have defined benefit pension plans. All are participating local entity participants in plans administered by the Maine State Retirement System. Employees of the Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, and the Northern New England Passenger Rail Authority are considered to be State employees for retirement benefit purposes and are included in the pension disclosures of the State.

Employer contributions met actuarially determined contribution requirements.

# NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

**POST RETIREMENT HEALTH CARE BENEFITS**

The State of Maine funds postretirement health care benefits for most retired State employees and legislators, as authorized by 5 MRSA § 285, and for a portion of the premiums for teachers, as authorized by 20-A MRSA § 13451. Pursuant to 5 MRSA § 285 most retired employees of the Maine Turnpike Authority, Maine Community College System, Maine Maritime Academy, Maine State Retirement System, and Maine Educational Center for the Deaf and Hard of Hearing are eligible to participate in the health plan but are not funded by the State. Specifically excluded (5 MRSA § 285 1-B) are members of the Maine Municipal Association, Maine Teachers Association and employees of counties and municipalities and their instrumentalities.

The State pays 100 percent of post retirement health insurance premiums for retirees who were first employed on or before July 1, 1991. A pro rata portion, ranging from zero percent for retirees with less than five years participation to 100 percent for retirees with ten or more years of participation, is paid for eligible individuals first employed after July 1, 1991. Retirees who are not eligible for Medicare retain coverage in the same group health plan as active employees. The retiree must pay for Medicare Part B coverage to be eligible to participate in the State-funded Companion Plan. Coverage for retirees who are not eligible for Medicare includes basic hospitalization; supplemental major medical and prescription drugs; and costs for treatment of mental health, alcoholism, and substance abuse. Effective January 1, 2006, the State contribution to retired teacher health premiums was increased to 45 percent.

The State had been in the process of changing funding of retiree health care benefits from a pay-as-you-go basis to an actuarial funding method. For retired State employees, the State estimated the total amount necessary to pay health insurance premiums. This amount is generated using a contribution rate, authorized by 5 MRSA § 286-A, multiplied by the value of the current employee payroll. The amounts contributed were reported as expenditures/expense in each of the various funds. For retired teachers, the State estimates the total annual amount necessary to pay its 45 percent share of health insurance premiums. This amount, less any accumulated funds remaining from prior years' estimates, is appropriated and reported as expenditures in the General Fund. Contributions resulting from both sources are accumulated in and reported as revenue of the Retiree Health Insurance Internal Service Fund. The State's share of the premium expense is paid from that fund when retiree payrolls are processed. Due to budgetary constraints and difficulties accumulating sufficient resources to fund retiree health care benefits on an actuarial basis, Chapter 673 PL 2003 authorizes the State to manage the retiree health insurance fund on a cost-reimbursement basis beginning June 30, 2005.

As of June 30, 2006, there were 9,107 retired eligible State employees and 7,081 retired teachers. In fiscal year 2006, the State paid into the Retiree Health Insurance Fund $71.1 million for retired employees and $12.0 million for retired teachers. Premium charges paid were $39.1 million and $14.1 million, respectively. Overall, Net Assets increased by $54.2 million to $61.8 million at June 30, 2006 as a result of an increase in cash of $22 million, and a decrease in amounts due to other funds of $30 million. The increase in cash relates to a premium increase in anticipation of the implementation of GASB Statement No. 45. The decrease in amounts due to other funds is due to legislation in fiscal year 2005 that required the transfer of certain excess equity amounts to the General Fund Compensation and Benefit Plan account. This was not required in fiscal year 2006.

Under current accounting standards, GASB Statement No. 12, *Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers*, the State has an actuarial accrued liability at June 30, 2006 for postretirement benefits of $2.6 billion.

The GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* These Statements, which will be implemented by the State for the fiscal year beginning July 1, 2006 and July 1, 2007, respectively, will require that the long-term cost of retirement health care and other obligations for postemployment benefits be determined on an actuarial basis and reported in a manner similar to pension plans. An actuarial study was completed to determine the actuarial accrued liability as of June 30, 2006. The study determined the liability if funded at transition of $3.2 billion, or $4.8 billion if not funded at transition. GASB Statement No. 45 does not mandate the prefunding of postemployment benefit liabilities; however, any prefunding of these benefits will help minimize the obligation required to be reported on the financial statements. The Legislature is currently

considering the creation of a trust fund and various funding alternatives.

**POST RETIREMENT LIFE INSURANCE BENEFITS**

The Maine State Retirement System provides certain life insurance benefits for retirees who, as active employees, participated in the Group Life Insurance Program for a minimum of ten years. Payments of claims are made from a fund containing the life insurance premiums of active State employees and teachers, plus earnings on the investments of the fund. In addition to the cost of claims, the State pays a monthly retention fee to a life insurance company. For the fiscal year ended June 30, 2006, claims totaled $1.9 million for retired State employees and $1.6 million for retired teachers. The number of participants eligible to receive benefits at fiscal year end was 6,996 retired State employees and 5,024 retired teachers.

## NOTE 11 - LONG-TERM OBLIGATIONS

**PRIMARY GOVERNMENT**

The State records its liability for general obligation bonds in the Governmental Activities column on the Statement of Net Assets. Other long-term obligations recognized by the State include: revenue bonds issued by the Maine Governmental Facilities Authority, a blended component unit; obligations under Certificates of Participation and other financing arrangements; pledged future revenues for repayment of bonds issued by the MMBB on behalf of the Maine Department of Transportation; compensated employee absences; and the State's net pension obligation.

**GENERAL OBLIGATION BONDS**

Programs for which the State issues general obligation bonds include: adaptive equipment loan programs; environmental cleanup and protection; highway and transportation related projects; agricultural and small business job creation; and acquisition, construction, and renovation of major capital facilities including State parks and historic sites. General obligation bonds are secured by the full faith and credit of the State. Debt service requirements are provided by legislative appropriation from the State's general tax revenues and are repaid in annual installments beginning not more than one year after issuance.

Changes in general obligation bonds of the primary government during fiscal year 2006 were:

**Primary Government - Changes in General Obligation Bonds**
(Expressed in Thousands)

| | Balance July 1, 2005 | Additions | Retirements | Balance June 30, 2006 | Due Within One Year |
|---|---|---|---|---|---|
| General Obligation Debt: | | | | | |
| General Fund | $439,110 | $52,390 | $57,915 | $433,585 | $69,280 |
| Special Revenue Fund | 47,825 | - | 13,950 | 33,875 | 10,415 |
| Self Liquidating | 160 | - | 70 | 90 | 70 |
| Total | $487,095 | $52,390 | $71,935 | $467,550 | $79,765 |

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2006 until maturity, are summarized in the following table:

**Future Debt Service on General Obligation Bonds**
(Expressed in Thousands)

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2007 | $ 79,765 | $ 18,755 | $ 98,520 |
| 2008 | 70,901 | 15,529 | 86,430 |
| 2009 | 62,675 | 12,626 | 75,301 |
| 2010 | 56,875 | 9,910 | 66,785 |
| 2011 | 51,525 | 7,409 | 58,934 |
| 2012-2016 | 145,809 | 11,864 | 157,673 |
| Total | $467,550 | $ 76,093 | $543,643 |

General fund, special revenue and other general obligation bonds issued and outstanding at June 30, 2006 are as follows:

**Primary Government – General Obligation Bonds Outstanding**
(Expressed in Thousands)

| | | | Fiscal Year Maturities | | |
|---|---|---|---|---|---|
| | Amounts Issued | Outstanding 6/30/2006 | First Year | Last Year | Interest Rates |
| General Fund: | | | | | |
| Series 1991 | $109,625 | $ 3,770 | 1994 | 2007 | 5.70% - 8.95% |
| Series 1997 | 37,700 | 2,680 | 1998 | 2007 | 4.875% - 7.125% |
| Series 1998 | 54,500 | 10,410 | 1999 | 2008 | 4.20% - 6.50% |
| Series 1999 | 54,385 | 11,615 | 2000 | 2009 | 4.20% - 6.75% |
| Series 2000 | 66,290 | 22,420 | 2000 | 2010 | 4.875% - 7.75% |
| Series 2001 | 22,050 | 10,525 | 2002 | 2011 | 4.00% - 6.08% |
| Series 2002 | 27,610 | 16,560 | 2003 | 2012 | 3.00% - 5.75% |
| Series 2003 | 97,080 | 67,945 | 2003 | 2013 | 1.50% - 5.00% |
| Series 2004 | 117,275 | 97,745 | 2005 | 2014 | 2.00% - 5.27% |
| Series 2005 | 137,525 | 137,525 | 2006 | 2015 | 2.00% - 5.27% |
| Series 2006 | 52,390 | 52,390 | 2007 | 2016 | 4.00% - 5.51% |
| Total General Fund | | $ 433,585 | | | |
| Special Revenue Fund: | | | | | |
| Series 1991 | 26,500 | $ 1,865 | 1994 | 2007 | 5.70% - 7.875% |
| Series 1997 | 5,000 | 500 | 1998 | 2007 | 4.30% - 5.00% |
| Series 1998 | 30,000 | 6,000 | 1999 | 2008 | 4.00% - 5.25% |
| Series 1999 | 16,900 | 5,070 | 2000 | 2009 | 4.00% - 5.50% |
| Series 2001 | 19,225 | 9,600 | 2002 | 2011 | 4.00% - 5.00% |
| Series 2004 | 13,000 | 10,840 | 2005 | 2014 | 2.00% - 4.00% |
| Total Special Revenue | | $ 33,875 | | | |
| Self Liquidating: | | | | | |
| Maine Veteran's Home | 1,700 | $90 | 1982 | 2008 | 8.3421% |

**AUTHORIZED UNISSUED BONDS**

Any bonds not issued within five years of the date of ratification may not be issued after that date. Within two years after expiration of the five-year period, the Legislature may extend, by a majority vote, the five-year period for an additional five years or may deauthorize the bonds. If the Legislature fails to take action within those two years, the bond issue shall be considered to be deauthorized and no further bonds may be issued. At June 30, 2006, general obligations bonds authorized and unissued totaled $97.1 million.

**REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY**

The State included $186.2 million in other financing arrangements to reflect revenue bonds issued by the Maine Governmental Facilities Authority, a blended component unit. Payment of the bonds is subject to, and dependent upon, biennial appropriations being made by the State Legislature. Debt issued by the Authority is not debt of the State or any political subdivision within the State; the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. The Authority may not issue securities in excess of $263.5 million outstanding, at any one time, except for the issuance of certain revenue refunding securities.

During the fiscal year ended June 30, 2006, the Authority issued the Series 2005 Bonds, which totaled $8.9 million at an interest rate between 4% - 5%. At June 30, 2006, there were approximately $79.9 million of MGFA in-substance defeased bonds outstanding.

### Certificates of Participation and Other Financing Arrangements

The State uses financing companies, Certificates of Participation (COP's), and lease/purchase agreements to finance the construction of certain State buildings and to purchase equipment and vehicles, including school buses. Certificates of Participation are issued through a trustee, and the State is responsible for payments to the trustee that approximate the interest and principal payments made to the certificate holders. The State and school districts maintain custody and use of the assets; however, the trustee holds a lien as security until such time as the certificates are fully paid.

Neither Certificates of Participation nor the other financing arrangements constitute a legal debt, liability, or contractual obligation in excess of amounts appropriated. The State's obligation to make minimum payments or any other obligation under agreements is subject to, and dependent upon, appropriations being made by the Legislature. The Legislature has no obligation to appropriate the money for future minimum payments or other obligations under any agreement.

### Other Long-Term Obligations

In general, expenditures and fund liabilities are not recorded in governmental funds for long-term obligations until amounts owed are "due and payable." Fund liabilities are recorded in the proprietary funds when obligations are incurred. In the Statement of Net Assets, the State has recorded long-term obligations for its compensated employee absences and net pension obligation.

The following schedule shows the changes in other long-term obligations for governmental and business-type activities for the fiscal year ended June 30, 2006:

**Primary Government - Changes in Other Long-Term Obligations**
(Expressed in Thousands)

| | Balance July 1, 2005 | Additions | Reductions | Balance June 30, 2006 | Due Within One Year |
|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | |
| MGFA Revenue Bonds | $ 189,570 | $ 8,890 | $ 12,245 | $ 186,215 | $ 14,595 |
| COP's and Other Financing Arrangements | 36,865 | 17,100 | 17,384 | 36,581 | 11,003 |
| Compensated Absences | 40,246 | 5,811 | 4,731 | 41,326 | 669 |
| Claims Payable | 185,463 | 88,898 | 201,380 | 72,981 | 24,177 |
| Capital Leases | 39,905 | 6,019 | 5,833 | 40,091 | 6,154 |
| Pledged Future Revenues | 49,423 | - | 3,155 | 46,268 | 3,915 |
| Net Pension Obligation | 34,236 | - | 16,186 | 18,050 | - |
| Total Governmental Activities | $ 575,708 | $ 126,718 | $ 260,914 | $ 441,512 | $ 60,513 |
| | | | | | |
| **Business-Type Activities:** | | | | | |
| Compensated Absences | $ 383 | $ - | $ 248 | $ 135 | $ 135 |
| Total Business-Type Activities | $ 383 | $ - | $ 248 | $ 135 | $ 135 |

Debt service requirements (principal and interest) for all COP's and other financing arrangements of the primary government, from June 30, 2006 until maturity, are summarized in the following table:

**Future Debt Service on MGFA Revenue Bonds, COP's and Other Financing Arrangements**
(Expressed in Thousands)

| | Governmental Funds | | | Internal Service Funds | | |
|---|---|---|---|---|---|---|
| Fiscal Year | Principal | Interest | Total | Principal | Interest | Total |
| 2007 | $ 5,864 | $ 472 | $ 6,336 | $ 19,734 | $ 8,638 | $ 28,372 |
| 2008 | 3,833 | 309 | 4,142 | 20,955 | 8,610 | 29,564 |
| 2009 | 2,065 | 164 | 2,229 | 20,634 | 7,272 | 27,906 |
| 2010 | 1,010 | 84 | 1,094 | 18,911 | 6,417 | 25,329 |
| 2011 | 630 | 46 | 676 | 14,150 | 5,669 | 19,819 |
| 2012 - 2016 | 660 | 17 | 677 | 65,115 | 19,736 | 84,851 |
| 2017 - 2021 | - | - | - | 46,890 | 5,562 | 52,452 |
| 2022 - 2026 | - | - | - | 2,345 | 124 | 2,469 |
| Total | $14,062 | $1,091 | $15,153 | $208,734 | $62,029 | $270,763 |

**SHORT TERM OBLIGATIONS**

The State of Maine issued and retired $124 million in Tax Anticipation Notes and $46.2 million in Bond Anticipation Notes during fiscal year 2006. Short term obligations are used to meet temporary cash flow operating needs. At June 30, 2006 there were no outstanding Tax Anticipation Notes or Bond Anticipation Notes.

**CONDUIT DEBT OBLIGATIONS**

To enable local school districts to purchase learning technology at a lower cost than they would be able to negotiate independently, the State has entered into a series of lease agreements with Apple Computer. These leases are special limited obligations of the State, payable solely from and secured by a pledge of rentals to be received from participating school administrative units. The leases do not constitute a debt or pledge of the faith and credit of the State or any political subdivision thereof and accordingly have not been reported in the accompanying financial statements.

At June 30, 2006, the lease agreements outstanding totaled $1.7 million.

**PLEDGED FUTURE REVENUES**

On December 16, 2004, the Maine Municipal Bond Bank (MMBB) issued $48.4 million of GARVEE grant anticipation revenue bonds on behalf of the Maine Department of Transportation, to provide financing for construction of a new Waldo-Hancock bridge. Net proceeds from the bonds totaled $49.4 million including bond premium of approximately $900 thousand. The bonds payable bear interest rates from 2.5% to 5%, and have maturities from 2005 to 2015. The State has committed to appropriate each year a portion of the State's future federal transportation funds, in amounts sufficient to cover the principal and interest requirements of MMBB's debt for these bonds. The State's receipt of these funds is subject to continuing federal appropriations. MMBB has insured payments of principal and interest with a financial guaranty insurance policy. The Bonds do not constitute a debt or obligation of the State.

Total principal and interest requirements over the life of the bonds are $60.2 million, with annual requirements of up to $5.6 million. Federal transportation funds received by the State for the federal fiscal year preceding the issuance of the bonds totaled $175 million. Total federal transportation funds received in federal fiscal year 2006 were $167 million, and current year payments to MMBB were $366,480 (0.2% of federal transportation funds received).

**OBLIGATIONS UNDER CAPITAL LEASES**

The State of Maine leases various assets under noncancelable leasing arrangements. Leases that constitute rental agreements are classified as operating leases; the resulting expenditures are recognized as incurred over the lease term. Leases, which are in substance purchases, are classified as capital leases.

In the government-wide and proprietary fund statements, assets and liabilities resulting from capital leases are recorded at lease inception at the lower of fair market value or the present value of the minimum lease payments. The principle portion of lease payments reduces the liability; the interest portion is expensed.

Most leases have cancellation clauses in the event that funding is not available. For reporting purposes, such

cancellation clauses are not considered because the likelihood that they will be exercised is considered remote.

Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered reasonably assured that an option will be exercised. Because the accounting treatment for installment purchase agreements is similar, such agreements are reported with capital leases.

Leases that exist between the State and the Maine Governmental Facilities Authority (MGFA), a blended component unit, are not recorded as leases in this report. In their separately issued financial statements, MGFA records a lease receivable from the State. Although payables and receivables technically exist between these parties, when combined for government-wide reporting, they are eliminated. A long-term liability exists on the government-wide statements for the bonds issued by MGFA to construct the assets associated with the leases. Future payments to MGFA are, therefore, not included in the schedule of lease commitments below. At June 30, 2006 capital assets include $63.7 million of capitalized buildings in the internal service funds, net of related accumulated depreciation of $27.6 million.

**OBLIGATIONS UNDER OPERATING LEASES**

The State is obligated under certain leases, accounted for as operating leases, in the proprietary funds. Operating leases do not give rise to property rights or lease obligations, and therefore assets and liabilities related to the lease agreements are not recorded in the State's financial statements.

The following schedule includes the future minimum lease payments for capital leases reported in proprietary funds, and the future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year from June 30, 2006:

**Future Minimum Lease Payments**
**Capital and Operating Leases**
(Expressed in Thousands)

| Fiscal Year | Capital Leases | Operating Leases |
|---|---|---|
| 2007 | $ 6,154 | $ 1,328 |
| 2008 | 5,866 | 1,003 |
| 2009 | 5,454 | 819 |
| 2010 | 5,034 | 483 |
| 2011 | 4,779 | 320 |
| 2012-2016 | 16,291 | 1,143 |
| 2017-2021 | 6,080 | 378 |
| 2022-2026 | 205 | - |
| 2027-2030 | 40 | - |
| Total Minimum Payments | 49,903 | $ 5,474 |
| Less: Amount Representing Interest | 9,812 | |
| Present Value of Future Minimum Payments | $ 40,091 | |

**MGFA REVENUE BONDS, COP'S AND OTHER FINANCING ARRANGEMENTS**

MGFA revenue bonds will be liquidated by the MGFA Internal Service Fund, from revenues received through lease agreements with various governmental funds. The liability for pledged future revenues will be liquidated from the Federal Fund. The vast majority of COP's and other financing arrangements will be liquidated by the internal service fund in which the leases are recorded, while relatively small amounts will be paid by the General Fund and Highway Fund.

**CLAIMS PAYABLE**

Claims payable that represent Medicaid claims will be paid from the General Fund and Federal Fund. Claims payable that represent workers' compensation and retiree/employee health will be liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related employees.

**COMPENSATED ABSENCES**

Compensated absence liabilities will be liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related

employees. The net pension obligations will be liquidated by the State's governmental and internal service funds that contribute toward the pension funds, based on their respective required contribution rates. Other claims and judgments attributable to governmental activities will generally be liquidated by the General Fund and related special revenue funds.

**Component Units**

Bonds payable of the discretely presented component units are legal obligations of the component units and are not general obligations of the State. The following table summarizes bonds outstanding for selected material balances of discretely presented component units, as reported in their separately issued financial statements, utilizing their respective fiscal year ends:

**Component Unit Bonds Outstanding**
(Expressed in Thousands)

| Component Unit | Interest Rates | Amount | Maturity Dates |
|---|---|---|---|
| Finance Authority of Maine | 1.0 - 3.90% | 175,383 | 2003 – 2035 |
| Maine Municipal Bond Bank | 1.0 - 10.25% | 1,080,961 | 1991 – 2036 |
| Maine Educational Loan Authority | 3.16 - 3.20% | 97,361 | 2009 – 2039 |
| Maine State Housing Authority | 1.80 - 6.45% | 1,567,095 | 2006 – 2039 |
| University of Maine System | 2.0 - 5.75% | 196,572 | 2000 – 2035 |

**Fiduciary Component Units Bonds Outstanding**
(Expressed in Thousands)

| | | | |
|---|---|---|---|
| Maine Health & Higher Educational Facilities Authority | 2.0 - 7.3% | 1,208,025 | 1988 - 2043 |

Between December 29, 2005 and May 18, 2006, the Maine Health and Higher Educational Facilities Authority issued $136.7 million in Series 2005B, 2006B, 2006C, and 2006D bonds with an average interest rate of 4.04%, 4.81%, 3.51%, and 3.50% respectively, a portion of which was used to refund $77.9 million of outstanding bonds. Approximately $751 thousand in issuance costs were paid. Total interest payments over the next 8 to 20 years were reduced by approximately $8.3 million. Proceeds were used to purchase U.S. Government securities which will provide for all future debt service payments on the refunded bonds. At June 30, 2006, there were approximately $68 million of advance refunded bonds remaining outstanding.

On November 3, 2005, the University of Maine System issued 2005 Series A Revenue Bonds, $9.2 million of which was used to advance refund $8.8 million of outstanding bonds. The refunding resulted in a deferred amount on refunding of $580 thousand, of which the unamortized balance was $530 thousand as of June 30, 2006. Total interest payments over the next 26 years were reduced by $550 thousand, and an economic gain of $400 thousand was obtained. At June 30, 2006, $8.7 million of advance refunded bonds remained outstanding.

Debt service principal maturities for outstanding bonds of the discretely presented component units, from June 30, 2006 until maturity, are summarized in the following table:

**Component Units Principal Maturities**
(Expressed in Thousands)

| Fiscal Year Ending | FAME | MMBB | MELA | MSHA | UMS | MHHEFA* |
|---|---|---|---|---|---|---|
| 2007 | $ 53 | $ 98,510 | $ - | $ 133,515 | $ 6,318 | $ 38,596 |
| 2008 | 53 | 97,999 | - | 36 ,695 | 7,017 | 43,659 |
| 2009 | 54 | 93,003 | - | 39,230 | 6,916 | 45,115 |
| 2010 | 54 | 88,786 | 11,615 | 40,135 | 7,292 | 45,755 |
| 2011 | 55 | 86,370 | - | 308,662 | 7,585 | 47,365 |
| 2012-2016 | 283 | 329,986 | - | 191,575 | 66,078 | 265,520 |
| 2017-2021 | 298 | 201,238 | - | 236,495 | 29,174 | 253,765 |
| 2022-2026 | 237 | 84,275 | - | 201,030 | 25,520 | 240,100 |
| 2027-2031 | - | 2,620 | 46,500 | 202,160 | 24,095 | 164,295 |
| 2032-2036 | 175,000 | 2,495 | 10,000 | 125,545 | 14,590 | 57,475 |
| 2037-2041 | - | 55 | 30,000 | 68,475 | - | 5,070 |
| 2042-2046 | - | - | - | - | - | 1,310 |
| 2047-2051 | - | - | - | - | - | - |
| Net unamortized premium Or (deferred amount) | (704) | (4,376) | (754) | (16,422) | 1,987 | - |
| Total Principal Payments | $175,383 | $1,080,961 | $97,361 | $1,567,095 | $196,572 | $1,208,025 |

- MHHEFA is reported in fiduciary fund financial statements.

## NOTE 12 - SELF-INSURANCE

### A. RISK MANAGEMENT

The State maintains several types of insurance plans and accounts for them in two funds. The Risk Management Division provides insurance advice and services to State governmental agencies, and the State-Administered Fund offers similar services to quasi-governmental entities. Statute requires the Self-Insurance Fund to be replenished by appropriation if the fund balance drops below $1 million. The State-Administered Fund balance has no similar provision; however, statutes prevent it from being used for any purpose other than providing insurance services.

Insurance plans offered include property, vehicle, boat and aircraft, tort, civil rights, employee bonds, police professionals, and a variety of other insurance products.

Not all departments elect to insure through the Risk Management Division; specifically, the Department of Transportation has elected not to purchase general liability insurance.

In some cases the State purchases excess insurance to limit the State's liability for insured events. For example, coverage for property damage is $250 million per occurrence. The State retains $2 million of this risk per occurrence, with the remainder being covered by a private insurance carrier (excess insurance). Settlements have not exceeded insurance coverage in any of the past three fiscal years. Coverage, risk retention, and excess insurance amounts for major types of insurance are listed below:

| Type of Insurance | Coverage Per Occurrence | Risk Retention Per Occurrence | Excess Insurance Per Occurrence |
|---|---|---|---|
| Property * | $250 million | $2 million | $250 million |
| Ocean Marine Boat Liability * | 10 million | 10 thousand | 10 million |
| Loss of Software and Data * | 8 million | 25 thousand | 8 million |
| Boiler and Machinery* | 3 million | 2 million | 3 million |
| General Liability Including | | | |
| Employment Practices | 400 thousand | 400 thousand | none |
| Police Professionals | 400 thousand | 400 thousand | none |
| Vehicular Liability | 400 thousand | 400 thousand | none |
| Bonding | 500 thousand | 500 thousand | none |
| Foster Parents | 300 thousand | 300 thousand | none |
| Inland Marine (various policies) | 2 million | 2 million | none |

* These lines of insurance have commercial excess insurance covering losses above the risk retention amount up to the per occurrence amount listed. All other insurance programs are wholly self-insured.

The plan funds the cost of providing claims servicing and claims payment by charging a premium to each agency based on a review of past losses and estimated losses for the current period.

All risk-financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claims liabilities represent the estimated cost of claims as of June 30, 2006. This cost of claims includes case reserves, the development of known claims and incurred but not reported claims, and the direct administrative expenses for settling specific claims.

Claims liabilities are determined on an actuarial basis and are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount.

At June 30, 2006 and 2005, the present value of the claims payable for the State's self-insurance plan was estimated at $3.2 million and $3.5 million, respectively. The actuary calculated this based on a 1.75 percent yield on investments.

**Risk Management Fund**
**Changes in Claims Payable**
(Expressed in Thousands)

| | 2006 | 2005 |
|---|---|---|
| Liability at Beginning of Year | $3,547 | $3,547 |
| Current Year Claims and | | |
| Changes in Estimates | 1,424 | 1,415 |
| Claims Payments | 1,781 | 1,415 |
| Liability at End of Year | $3,190 | $3,547 |

As of June 30, 2006, fund assets of $18.4 million exceeded fund liabilities of $3.7 million by $14.7 million. The portion of this amount that may be reserved for catastrophic losses has not been determined.

In the past, general liability insurance coverage excluded lawsuits brought by employees. Therefore, the loss history used by the actuary to project claims did not include the effects of any such lawsuits. Effective July 1, 1999, the State added $50 thousand coverage per occurrence for the cost of defending the State in any such lawsuits. Effective July 1, 2000, the State increased coverage to include both defense and indemnification costs up to $400 thousand. The effect of this change has not been incorporated into the estimate used to determine claims payable as of June 30, 2006.

**B. UNEMPLOYMENT INSURANCE**

The State is self-insured for unemployment compensation. As a direct reimbursement employer, the State recognizes all costs for unemployment compensation as claims are paid. These costs totaled $783 thousand for the fiscal year ended June 30, 2006.

**C. WORKERS' COMPENSATION**

Workers' Compensation is accounted for in an Internal Service Fund. Interfund premiums are treated as quasi-external transactions. Each State agency is charged a premium based on the number of employees to be covered plus an added amount to reduce the unfunded liability. The Legislature, Legislative Council, and Law Library employees are self-insured for workers' compensation purposes. The State assumes the full risk of all claims filed for workers' compensation.

Claims liabilities are actuarially determined based on estimates of the ultimate cost of claims, including future claim adjustment expenses that have been incurred but not reported and claims reported but not settled. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The balance of claims liabilities as of June 30, 2006:

**Workers' Compensation Fund**
**Changes in Claims Payable**
(Expressed in Thousands)

| | 2006 | 2005 |
|---|---|---|
| Liability at Beginning of Year | $ 53,343 | $ 61,839 |
| Current Year Claims and | | |
| Changes in Estimates | 8,955 | 1,329 |
| Claims Payments | 8,955 | 9,825 |
| Liability at End of Year | $ 53,343 | $ 53,343 |

Based on the actuarial calculation as of June 30, 2005, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $67.1 million. The discounted amount is $53.3 million and was calculated based on a 4 percent yield on investments.

**D. EMPLOYEE HEALTH INSURANCE**

The employee health and retiree health insurance programs are accounted for in two Internal Service Funds. The State became self insured for employee and retiree health care coverage on July 1, 2003. A stop loss agreement with Anthem Blue Cross and Blue Shield provides catastrophic coverage for individual claims exceeding $350 thousand.

The State retained an independent contractor for claims administration, utilization review, and case management services. Premiums are paid to the independent contractor based upon rates established with the technical assistance of the plan's consulting actuary.

There are two primary health plans available. HMO Choice is a point-of-service plan available to all active employees and retirees not eligible for Medicare. The Group Companion Plan is a supplement to Medicare Parts A & B and is available to Medicare eligible retirees. Total enrollment averaged approximately 41,000 covered individuals. This total includes 30,300 active employees and dependents, 4,200 pre-Medicare retirees and dependents, and 6,500 Medicare retirees and dependents.

Claims expenses are recorded when premiums are paid to the claims servicing contractor. At the end of the period, the total of these premium payments are

compared with the actual claims paid and claims expense is adjusted for any overage or shortage with an offsetting receivable or liability recorded. For the period ending June 30, 2006, the State recorded a receivable of $5.2 million for an overpayment of health care premiums.

Expenses and liabilities for incurred but not reported claims, based on an actuarial analysis of claim lag pattern, have been recorded as liabilities in the amount of $16.4 million. Changes in the Employee Health Insurance and Retiree Health Insurance claims liability for the fiscal year ending June 30, 2006 follows (in thousands):

| | Employee Health Fund | Retiree Health Fund |
|---|---|---|
| Liability at Beginning of Year | $ 14,288 | $ 6,980 |
| Current Year Claims and Changes in Estimates | 90,731 | 41,715 |
| Claims Payments | 94,465 | 42,801 |
| Liability at End of Year | $ 10,554 | $ 5,894 |

## NOTE 13 - JOINT VENTURES

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose. The State of Maine participates in two separate joint venture arrangements; the Tri-State Lotto Commission (Commission) and the Multi-State Lottery Association (MUSL).

### Tri-State Lotto Commission

The Commission was established in 1985 pursuant to passage into law of the Tri-State Lotto Compact by the States of Maine, New Hampshire, and Vermont. The Commission is authorized and empowered to promulgate rules and regulations regarding the conduct of lottery games, including ticket prices, prizes, and the licensing of agents.

The Commission is composed of one member from each of the participating states. Each member State's commission appoints one of its members to serve on the Commission and each member holds office at the pleasure of his or her appointing authority. The Commission annually elects a chairman from among its members.

The Commission has designated that 50 percent of its operating revenue be aggregated in a common prize pool.

A prize award liability is established when the winning ticket number is selected. If no winning ticket is selected, the available jackpot is carried over to the following drawing. The Tri-State Lotto Compact requires that prizes not claimed within one year from the date of the drawing be forfeited. All expired unclaimed prizes are credited to future prize pools. The Commission funds its jackpots through annuity contracts purchased from insurance companies and zero-coupon U.S. Government Treasury Strips.

A proportional share of revenues and expenses are allocated to each State based on the amount of ticket sales made by each State. Exceptions are the facility's management fee, which is based on a contracted percentage of operating revenue that varies from State to State; Daily Number expenses that are allocated to each State based on Daily Number ticket sales; and certain other miscellaneous costs that are based on actual charges generated by each State.

The Tri-State Lotto Commission financial report for fiscal year 2006, which may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008, includes the following selected financial information:

**Tri-State Lotto Commission**
(Expressed in Thousands)

| | |
|---|---|
| Current Assets | $ 41,846 |
| Noncurrent Assets | 110,793 |
| Total Assets | $152,639 |
| | |
| Current Liabilities | $ 27,224 |
| Long-term Liabilities | 112,488 |
| Total Liabilities | 139,712 |
| | |
| Designated Prize Reserves | 4,096 |
| Unrealized Gain on Investments Held for Installment Prize Obligations | 8,831 |
| Total Net Assets | 12,927 |
| Total Liabilities and Net Assets | $152,639 |
| | |
| Total Revenue | $ 65,794 |
| Total Expenses | 44,753 |
| Allocation to Member States | 21,041 |
| Change in Unrealized Gain on Investments Held for Resale | (10,985) |
| Change in Net Assets | $ (10,985) |

**Multi-State Lottery Association**

The Maine State Lottery became a member of the Multi-State Lottery Association (MUSL) in July 2004. The MUSL currently has 29 member State lotteries, including the District of Columbia and the United States Virgin Islands. The MUSL is managed by a Board of Directors, which is comprised of the lottery directors or their designee from each of the party States and authorized to initiate, promulgate, administer and carry out one or more lottery product offerings that will enhance the participating party lottery's revenue.

Participating lotteries sell Powerball tickets, collect all revenues, and remit prize funds to the MUSL, net of lower tier prize awards. The operating costs of the Board are divided equally among all of the participating lotteries. Jackpot prizes that are payable in installments are satisfied through investments purchased by the MUSL. The MUSL purchases US government obligations, which are held in irrevocable trusts established by the MUSL for the benefit of participating State lotteries. Each week the MUSL allocates 50 percent of sales to the prize pool. If no winning ticket is selected, the available jackpot is carried over to the following jackpot drawing.

The Multi-State Lottery Association's financial report for fiscal year 2006, which may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008, includes the following selected information:

**Multi-State Lottery Association**
(Expressed in Thousands)

| | |
|---|---|
| Cash and Cash Equivalents | $ 185,611 |
| Investments in US Government Securities | 42,036 |
| US Government Securities Held for Prize Annuities | 800,387 |
| Due from Party Lotteries | 24,551 |
| Other Assets | 1,594 |
| Total Assets | $1,054,179 |
| | |
| Amount Held for Future Prizes | $ 228,196 |
| Grand Prize Annuities Payable | 822,072 |
| Other Liabilities | 3,699 |
| | 1,053,967 |
| Net Assets, Unrestricted | 212 |
| Total Liabilities and Net Assets | $1,054,179 |
| | |
| Total Revenue | $ 2,694 |
| Total Expenses | 2,708 |
| Excess (deficit) of revenue over expenses | (14) |
| Net assets, beginning | 226 |
| Net assets, ending | $ 212 |

## NOTE 14 - RELATED PARTY TRANSACTIONS

**PRIMARY GOVERNMENT**

Title 20 MRSA § 11473 establishes the Maine College Savings Program Fund (the Fund), administered by the Finance Authority of Maine (FAME). The Fund holds all monies associated with the Maine College Savings Program doing business as the NextGen College Investing Plan (NextGen). NextGen is the primary program of the Fund and was established to encourage the investment of funds to be used for qualified higher education expenses at institutions of higher education.

The program has been designed to comply with the requirements for treatment as a "Qualified State Tuition Program" under Section 529 of the Internal Revenue Code.

By statute, the program assets and liabilities are held by the Treasurer of the State of Maine. FAME and the Treasurer of the State of Maine have entered into a management agreement for the Treasurer to act as a fiduciary of the Fund. The Treasurer is responsible for investment of the Fund and determining, with the advice of the Advisory Committee on College Savings, the proper allocation of the investments of the Fund. The NextGen College Investing Plan had approximately $4 billion in net assets at June 30, 2006, which have been recorded in an Agency Fund on the financial statements of the State.

General Obligation Bonds of the State include $90 thousand of self-liquidating bonds of the Maine Veterans' Home. The State issues the bonds, and the Maine Veterans' Home remits to the State the debt service as it comes due.

The State of Maine pays a local company as a provider for mental health and independent living services through the MaineCare program. The Executive Director of the company also serves as House Chair of the Joint Standing Committee on Appropriations and Financial Affairs in the Maine Legislature. During fiscal year 2006, the State paid $13.5 million for these services; $6 million from the General Fund and $7.5 million from the Federal Fund. At June 30, 2006, the State owed $474 thousand to this vendor.

The State of Maine pays a local company as a provider of services to individuals with developmental disabilities. The Executive Director of the company also serves as a member of the House in the Maine Legislature. During fiscal year 2006, the State paid $14 million for these services; $5.2 million from the General Fund and $8.8 million from the Federal Fund. No monies were owed to this vendor at June 30, 2006.

The State of Maine entered into memoranda of understanding with the Wells National Estuarine Research Reserve Management Authority, a jointly governed organization, through the Bureau of Public Lands and the Bureau of Parks and Recreation. These agreements outline each entity's responsibilities in relation to the operation of the Reserve and the management of the property included within the boundaries of the Reserve. The Authority's responsibilities are generally to manage the Reserve consistent with the Wells National Estuarine Research Reserve Management Plan dated May 1991.

**COMPONENT UNITS**

The State provided appropriations and grant monies to the following discretely presented component units: University of Maine System, $216.6 million; Child Development Services, $18.1 million; Maine Community College System, $54.2 million; Maine Municipal Bond Bank, $19.8 million; Finance Authority of Maine, $14.5 million; Maine Maritime Academy, $7.6 million; Maine State Housing Authority, $20.3 million; Maine Technology Institute, $7.9 million; Loring Development Authority, $1.2 million; and the Maine Educational Center for the Deaf and Hard of Hearing, $6.3 million.

FAME administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total $32.7 million at June 30, 2006, as a liability in Amounts Held Under State Revolving Loan Programs in their financial statements. The state reports the asset as a receivable in the Special Revenue Fund. During fiscal year 2006, the State expended $1.6 million to FAME for State revolving loan funds.

Title 20-A MRSA Chapter 419-A establishes the Maine State Grant Program as a fund under the jurisdiction of the Finance Authority of Maine. All grant revenues under this fund must be distributed by FAME to students who meet the eligibility requirements for a grant under this chapter. During fiscal year 2006, FAME paid approximately $5.7 million in grants to the University of Maine System (UMS) on behalf of eligible students. The UMS reflected these as grant revenues from the State.

The State of Maine contributed the use of land and buildings to the Maine Educational Center for the Deaf and Hard of Hearing, a discretely presented component unit, for the operations of the School. The School does not recognize contribution revenue and the corresponding lease expense related to the contributed use of the property.

**RELATED ORGANIZATIONS**

The State receives transfers in the amount of the annual operating surplus from the Maine Turnpike Authority under the Sensible Transportation Act of 1991. The Legislature defined operating surplus within the Maine Turnpike Authority statute to be the total operating revenues of the Authority after money has been set aside to pay reasonable operating expenses and to meet the requirements of any resolution authorizing bonds. The Authority, with the concurrence of the Maine Department of Transportation, established the operating

surplus at $4.7 million annually. The payment of debt service costs in connection with the issuance of the Series 1996 Special Obligation Bonds is considered to constitute payment of the operating surplus for the year 2006.

## NOTE 15 - COMMITMENTS AND CONTINGENCIES

### PRIMARY GOVERNMENT

#### LITIGATION

The State of Maine, its units, and its employees are parties to numerous legal proceedings, many of which are the result of normal governmental operations. In the opinion of the Attorney General and other legal counsel representing the State, in all of the cases listed, the State or its agencies or employees have valid defenses. The following cases have the potential for liability in excess of $1 million. Even if liability is found, the State should not expect to pay out the full amounts being sought against it in all of the cases. In any given case, however, the State could incur a large judgment.

*Paul and Robert Dyer v. State of Maine, Department of Transportation.* The Dyers were awarded approximately $447 thousand by the State Claims Board in connection with the taking of property in Waldo County for the new Penobscot Narrows Bridge. They are seeking approximately $1.3 million in damages.

*Goodall Hospital v. Harvey* . This suit was filed on November 20, 2006. Plaintiff hospital alleges that the Department of Health and Human Services has refused or failed to pay the hospital's 2005 fiscal year bills for services to Medicaid recipients. The case is worth slightly over $2 million, approximately $666 thousand of State dollars. The potential for expenditure is moderate.

*E.I. Dupont De Nemours & Company v. State Tax Assessor.* This case involves corporate income tax, interest and penalties assessed against Dupont for years 1999 – 2001 in the amount of approximately $1 million. The potential for expenditure is moderate.

*Callahan Mine Superfund Site.* The U.S. EPA identified the State of Maine as a Potentially Responsible Party for a Superfund site – the Callahan Mine Site in Brooksville, Maine. The mining occurred pursuant to a lease from 1968 to 1972 in part on state-owned submerged land that had been drained. No court action has been filed by EPA at this time. If the State is found liable as a Responsible Party for the site, costs could exceed $1 million just for the work conducted by EPA to date. The State has only agreed to conduct feasibility studies to date. Potential liability for remedial actions could exceed $1 million, however, feasibility studies have not yet been completed. The potential for expenditure regarding this matter is probable; however, the State cannot reasonably estimate the amount of potential loss.

In various lawsuits, Plaintiffs seek damages in excess of $1 million against the State or against State officials, and various notices of claim also specify damages in excess of $1 million where no lawsuit has been filed. In none of these lawsuits, in the view of the Attorney General, is there any reasonable possibility that the State's liability could reach or exceed $1 million. Therefore, these suits have not been individually identified.

Numerous workers' compensation claims are now pending against various State agencies. Since most claims involve the possibility for significant long-term damages, and since the test for demonstrating a causal relationship between the employment and the illness or injury is not as rigorous as in ordinary civil cases, these cases involve the possibility of significant liability for the State. Since possible damages include future medical costs and wage replacements for the employee (and in some cases spouse), it is difficult to estimate the total potential liability to the State.

All other legal proceedings are not, in the opinion of management after consultation with the Attorney General, likely to have a material adverse effect on the financial position of the State.

#### FEDERAL GRANTS

The State receives significant financial assistance from the federal government. The receipt of grants is generally dependent upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Grants are subject to the Federal Single Audit Act. Disallowances by federal officials as a result of these audits may become liabilities of the State. The amount of expenditures that may be disallowed by the grantor agencies cannot be determined at this time.

In September 2005, the United States Department of Education (USDOE) estimated that it would disallow $5.3 million of federal financial participation in the State's Migrant Education Program. The State has settled

$2.3 million of this disallowance by de-obligating federal grant award balances for federal fiscal years 2003 and 2004. The USDOE and the State have come to an agreement where the State will use any unobligated funds to repay the balance at the end of each fiscal year. The State has not accrued a liability for the estimated disallowance at June 30, 2006.

**MUNICIPAL SOLID WASTE LANDFILLS**

Title 38 MRSA §1310-F, establishes within the Department of Environmental Protection (DEP) a cost-sharing program for the closure and remediation of municipal solid waste landfills that pose an actual or potential hazard to the environment and public health. The State's obligation to provide cost sharing to municipalities is subject to the availability of funds approved for that purpose. State expenditures for landfill remediation projects totaled $121.8 thousand for fiscal year 2006.

During the 2006 fiscal year, no State general funds or bond funds were expended for municipal solid waste landfill closure projects. After January 1, 2000, the State is no longer liable for the costs relating to the closure of municipal solid waste landfills except the Commissioner may make grants or payments up to 30%, if they are incurred pursuant to an alternative closure schedule approved by DEP prior to January 1, 2000, and if they are specifically identified in a department order or license, schedule of compliance or consent agreement. No reimbursement applications for past closure costs are on file. No additional cost share eligible closures have been approved by DEP. Consequently, the DEP expects no further expenditures for municipal landfill closures.

During the 2006 fiscal year, the State expended $121.8 thousand of general obligation bond funds for municipal solid waste landfill remediation projects. Remediation funding, subject to the availability of funds, will continue for 90% of the cost of remediation for threats posed by a municipal landfill to wells or other structures constructed on or before December 31, 1999. The maximum reimbursement for remediation funding is 50% for structures constructed after that date. Current outstanding remedial obligations total approximately $235 thousand. Bonds have not been issued to cover these outstanding obligations.

The DEP recognizes that, in the future, some landfills will require State funds for post closure investigation and remediation activities. The DEP has estimated the amount of these potential future costs to be as high as $5 million, based on current site knowledge and the increasing frequency of residential development near closed municipal landfills and the discovery of older abandoned dump sites now occupied by residential homes.

**SAND AND SALT STORAGE PROGRAM**

The State estimates the potential aggregate cost to comply with the environmental requirements associated with the Sand and Salt Storage program to be $18.2 million. This consists of approximately $12.2 million for State-owned facilities and approximately $6 million for the State's share, under a cost sharing arrangement, for municipal facilities.

**POLLUTION ABATEMENT PROGRAM**

Title 38 MRSA § 411 establishes within DEP a cost-sharing program for pollution abatement projects. Subject to funding by the Legislature and the approval of the Commissioner, the State may contribute to the design, engineering and construction of municipal pollution abatement facilities. During the 2006 fiscal year, $2.2 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2006, amounts encumbered for pollution abatement projects totaled $200 thousand; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $1.2 million. At June 30, 2006, DEP estimated the total cost (federal, State, and local) of future projects to be $389 million.

**DESIGNATION AS A POTENTIALLY RESPONSIBLE PARTY BY THE ENVIRONMENTAL PROTECTION AGENCY**

The State has been identified as a potentially responsible party at two hazardous wastes clean-up sites in Maine. These are located in Plymouth and Brooksville. The remedy for the Plymouth site has been identified in concept but the final cost has yet to be determined. The Brooksville site is presently under investigation but no remedy has been identified.

**GROUND WATER OIL CLEAN-UP FUND**

The Ground Water Oil Clean-up Fund is established in Title 38 MRSA § 569-A. Fund activities include, but are not limited to, providing insurance to public and private entities for clean up of oil spills. The program is funded by a per barrel assessment on petroleum products imported into the State. Coverage is up to $1 million per occurrence for both aboveground and underground storage tanks. Third party injury coverage may not exceed $200 thousand per claimant.

A report to the legislature dated December 15, 2000, submitted by the Maine Department of Environmental Protection (DEP), identified 356 long-term remediation

sites as of August 2000 that are covered by the insurance program. At June 30, 2006 there were 318 sites on the long-term remediation priority list. Since it is not possible for the DEP to estimate the cost of remediation, the State has not accrued a liability in the financial statements.

**CONSTRUCTION COMMITMENTS**

A portion of the payment that is made to municipalities for General Purpose Aid to Local Schools is allocated for debt service. Although the outstanding indebtedness for school construction projects is debt of the municipalities, the State subsidizes 53.86% of the annual payments. As of June 30, 2006, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $827.8 million.

At June 30, 2006, the Department of Transportation had contractual commitments of approximately $73.1 million for construction of various highway projects. The State's share of that amount is expected to be approximately $12.2 million. Of these amounts, $3.4 million has already been accrued. Federal and State funds plus bond proceeds are expected to fund these future expenditures.

**TOBACCO SETTLEMENTS**

On November 23, 1998, Maine along with 45 other states and five jurisdictions entered into a Master Settlement Agreement (MSA) with certain Participating Tobacco Manufacturers (PM's) to recover smoking-related Medicaid costs. In this out-of-court settlement, the PM's agreed to pay $206 billion to the states and jurisdictions. In return, the states agreed to relinquish claims to further damages resulting from Medicaid costs.

As compensation, the PM's have also agreed to pay $8.6 billion to certain states and jurisdictions for their contribution to the overall settlement. These payments are subject to the adjustments referred to below.

Maine's percentage of the total settlement payment is 0.7693505%, which equals $1.58 billion. Annual payments will fluctuate subject to various adjustments and are contingent on the passage and enforcement of a State statute imposing economic conditions on the Non-participating manufactures (NPM's). The NPM adjustment is set forth in the Master Settlement Agreement (MSA). If the PM's prove that they lost market share to the NPM's because of their need to make MSA payments, and if they prove Maine did not diligently enforce its statutes concerning NPM escrow, then the Participating Manufacturers may "adjust" or lower their annual payment pursuant to the MSA. This NPM adjustment may be sought each year. For the year 2003, the adjustment sought was 18%.

Maine's share is approximately $114 million and will be received in ten annual payments beginning in 2008.

**BAXTER COMPENSATION AUTHORITY**

Chapter 439 PL 2001 established the Baxter Compensation Authority to provide monetary compensation to former students of the Baxter School for the Deaf (now named The Maine Educational Center for the Deaf and Hard of Hearing) who, while students, were subjected to abuse by a State employee or by inaction of the State. The Authority is established by the provisions of Title 5 MRSA § 601 as a public instrumentality of the State, limiting any liabilities to its available resources.

The Authority was initially capitalized by the legislature with $6 million, to settle cases and provide for its administrative expenses. In Chapter 673 PL 2003, the Legislature provided an additional $6 million on a one-time basis to pay additional claims that may come forward. Chapter 3 PL 2005 further provides an additional transfer of up to $8.1 million from the available unappropriated suplus of the General Fund at the close fiscal year 2005. During fiscal year 2006, $7.3 million was appropriated from the General Fund surplus to pay claims totaling $7.3 million. As of June 30, 2006, the Authority paid claims of $19.3 million. The Authority is no longer in operation as of June 2006.

**DIRIGO HEALTH AGENCY**

Experience Modification Program

Chapter 469 PL 2003 established the Dirigo Health Agency to arrange for the provision of comprehensive, affordable health care coverage to eligible small employers, including the self-employed, their employees and dependents, and individuals on a voluntary basis (DirigoChoice).

Because DirigoChoice members had no prior claims history, the Dirigo Health Agency agreed to share claims costs that exceed an agreed upon level through an Experience Modification Program (EMP) with its carrier, Anthem Blue Cross Blue Shield (Anthem). The EMP is a form of experience rating not uncommon in start up association-like plans where the risk of the population is unknown. The EMP protects the DirigoChoice pool from adverse selection.

The Dirigo Health Agency prepays the EMP quarterly, based on enrollment assumptions. Because the Dirigo Health Agency assumes the most adverse outcome, the EMP liability cannot exceed the total prepayments. If

the experience outcome is favorable in the DirigoChoice plan, Anthem returns all of the EMP to the Dirigo Health Agency. Terms of the outcome sharing are detailed in the contractual agreement between the Dirigo Health Agency and Anthem.

Claims for calendar year 2006 will not be finalized until July 1, 2007, when a six month run-out period elapses. Due to limited claims and experience data for DirigoChoice members for 2006, the medical loss ratio and related amount that may be returned to the Dirigo Health Agency, if any, cannot be reasonably estimated. EMP payments for State fiscal year 2006 totaled $6.4 million.

Savings Offset Payment

Title 24-A MRSA § 6913 established the Savings Offset Payment (SOP) within the Dirigo Health Fund where it uses the SOP as a source of revenue to pay for the activities of the Maine Quality Forum and to subsidize the purchase of health coverage. Each year the Board of Directors of Dirigo Health Agency determines the aggregate measurable cost savings to health care providers in this State as a result of the operation of Dirigo Health. Upon approval of the cost savings amount by the Superintendent of Insurance, the Board determines a savings offset amount to be paid by health insurance carriers, employee benefit excess insurance carriers and third party administrators. The Board calculates the savings offset payment as a percentage of paid claims.

The State Superintendent of Insurance determined that $43.7 million was saved by insurance companies because of Dirigo Health. The Board established a percentage of .02408 to be applied to claims paid by insurance companies. The savings was affirmed by the State Superior Court, but is now being appealed to the State Supreme Court. As of June 30, 2006, Dirigo Health has collected $3.5 million of this assessment. The total amount receivable cannot be measured as Dirigo Health does not know the paid claims amounts on which the assessment will be applied.

### DISPROPORTIONATE SHARE PAYMENTS TO HOSPITALS

In State fiscal years 2004, 2005, and 2006, the Department of Health & Human Services funded the federal share of the Non-Categorical Childless Adult Medicaid Waiver with Disproportionate Share allotments. An undeterminable amount of the allotted funds may be required to fund Disproportionate Share payments to Acute Care Hospitals in the future.

### ESCHEAT PROPERTY

The State Abandoned Property Statute requires the deposit of certain defined and unclaimed assets into a state-managed Abandoned Property Fund (Private Purpose Trust Fund). The State Statute provides that whenever the cash balance of the fund exceeds $500 thousand at fiscal year end, the excess must be remitted to the General Fund where it is reported as operating transfers from other funds. At June 30, 2006, the Fund included $16.3 million of securities not yet liquidated that were not subject to transfer to the General Fund. Net collections from inception (1979) to June 30, 2006 of approximately $124.3 million represent a contingent liability to the State since claims for refund may be filed by the owners of such property.

A liability representing the probable amount of escheat property that will be reclaimed and paid to claimants and other third parties is reported in the Fund. To the extent that the assets in the Fund are less than the claimant liability, a receivable (due from other funds) is reported in that Fund and an equal liability (due to other funds) is reported in the General Fund. At June 30, 2006, the amount reported in the Fund for claimant liability is $22 million. The General Fund shows a $5.2 million payable to the Escheat Fund.

## DISCRETELY PRESENTED COMPONENT UNITS

### NURSING HOME LOANS

The owners of certain financially troubled nursing homes, with the concurrence of The Maine Health and Higher Educational Facilities Authority (MHHEFA), started refinancing portions of MHHEFA's loans and advances with the U.S. Department of Housing and Urban Development (HUD). Management of MHHEFA expects that these refinancings will reduce annual debt service requirements, thereby eliminating its exposure in the Taxable Financing Reserve Fund and reducing its overall exposure. Through June 30, 2006, HUD completed refinancings for ten institutions which, at the time they were refinanced, had combined bond-related loans and advances due MHHEFA of approximately $48.4 million. As part of the refinancing completed by HUD, MHHEFA agreed to issue 8% subordinated notes receivable to these ten institutions from its operating fund. These notes totaled $7.8 million at June 30, 2006, record interest only to the extent that cash payments are received, and are subordinate to all HUD loans. If these institutions fail to generate positive cash flow in future periods, it is likely that these notes will not be repaid.

The Authority advanced approximately $918 thousand from the operating fund as of June 30, 2006 to other financially troubled institutions, with combined loan amounts due the Authority of approximately $11.9 million at June 30, 2006, including loans of $10 million reserved at June 30, 2006. These advances were primarily made to assist these institutions in meeting debt service requirements. The Authority established a $2.1 million reserve in its operating fund related to amounts that have been advanced or are expected to require an advance to troubled institutions.

**CONSTITUTIONAL OBLIGATIONS**

Article 9, § 14-A, C, and D of the Maine State Constitution provides that the State may insure the payment of mortgage loans for industrial, manufacturing, fishing, agricultural and recreational enterprises; mortgage loans for the acquisition, construction, repair and remodeling of houses owned or to be owned by members of two tribes on several Indian reservations; and mortgage loans to resident Maine veterans of the Armed Forces of the United States, including loans to a business organization owned in whole or in part by resident Maine veterans. The aggregate of these obligations, at any one time, may not exceed $90 million, $1 million, and $4 million, respectively. At June 30, 2006, loans outstanding pursuant to these authorizations are $28.7 million, less than $1 million, and less than $1 million, respectively. The State has not paid, nor does it expect to pay, any amounts as a result of these authorizations as of June 30, 2006.

Article 8, § 2, of the Maine State Constitution provides that the State may secure funds, through the issuance of bonds authorized by the Governor, for loans to Maine students attending institutions of higher education. The amount of bonds issued and outstanding shall not at any one time exceed $4 million in the aggregate. The State has not paid, nor does it expect to pay, any amount as a result of this authorization as of June 30, 2006.

**MORAL OBLIGATIONS**

The State of Maine, through statute, enables certain Authorities to establish capital reserve funds. These funds may be used to secure a variety of financial undertakings including the issuance of bonds. The minimum amount of the capital reserve fund may be determined by statute or set by the Authority. The statutes may also limit the amount of debt that may be secured by the capital reserve funds, and allow the Authority to issue debt that is not secured by these funds.

On or before December first of each year, the Authority is required to certify to the Governor the amount, if any, necessary to restore any capital reserve fund to its required minimum. If there is a shortfall, the Governor is required to pay first from the "Contingent Account" the amounts necessary for restoration. The Governor shall certify any remaining unpaid amounts to the Legislature, which is then required to appropriate and pay the remaining amounts to the Authority during the then-current State fiscal year.

These moral obligations are not considered to be "full faith and credit" obligations of the State, and voter approval of the underlying bonds is not required. No capital reserve fund restorations have been made in the current or previous years.

The following summarizes information regarding outstanding moral obligations:

**Moral Obligation Bonds**
(Expressed in Thousands)

| Issuer | Bonds Outstanding | Required Debt Reserve | Obligation Debt Limit | Legal Citation |
|---|---|---|---|---|
| Maine Health and Higher Educational Facilities Authority * | $ 1,176,195 | $ 99,152 | no limit | 22 MRSA § 2075 |
| Finance Authority of Maine | 40,628 | 2,378 | $574,715 | 10 MRSA §1032, 1053 |
| | - | - | 50,000 | 20-A MRSA §11449 |
| | - | - | 50,000 | 38 MRSA §2221 |
| Loring Development Authority | - | - | 100,000 | 5 MRSA §13080-N |
| Maine Municipal Bond Bank | 1,085,337 | 121,570 | no limit | 30-A MRSA §6006 |
| Maine Educational Loan Authority | 32,115 | 1,285 | 50,000 | 20-A MRSA §11424 |
| Maine State Housing Authority | 1,216,930 | 109,428 | 2,150,000 | 30-A MRSA §4906 |
| Total | $3,551,205 | $ 333,813 | | |

* MHHEFA is reported in fiduciary fund financial statements.

## NOTE 16 - SUBSEQUENT EVENTS

**PRIMARY GOVERNMENT**

On July 20, October 1, 2006, and January 12, 2007, the State issued $40.3 million, $10.3 million, and $4.7 million, respectively, of Bond Anticipation Notes that mature on June 8, 2007.

On July 31, 2006, the State issued $10 million of Certificates of Participation(COP's), with an interest rate of 4.46%, and a maturity date in 2013, for the purpose of developing a statewide communications system. On August 28, 2006, the State issued $2.4 million of COP's, with an interest rate of 4.291%, and with a maturity date in 2012, and $1.2 million with an interest rate of 4.532%, and a maturity date in 2017, both for the purpose of financing the upgrade of the State's correctional facilities. On September 22, 2006, the State issued $19.2 million of COP's with a maturity of 2010 and an interest rate of 5.37%, for the State's laptop program. On February 28, 2007, the State issued $800 thousand of COP's maturing on August 1, 2009, with an interest rate of 4%, for the accounting system upgrade and $14 million of COP's maturing on September 1, 2013, with an interest rate of 3.85%, for Maine Revenue Services computer system.

Public Law 2005 Chapter 636 established the Retired County and Municipal Law Enforcement Officers and Municipal Firefighters Health Insurance Program to provide health insurance coverage to retired county and municipal law enforcement officers and retired municipal firefighters. Beginning July 1, 2007, the State shall provide a premium subsidy of 45% to enrollees. The impact of this program on the State's OPEB liability, required by GASB Statement No. 45, has not been determined.

**COMPONENT UNITS**

On February 1, 2006 the Maine State Housing Authority (MSHA) redeemed $79 million of its 2005 Series A and B General Housing Draw Down bonds, with variable interest rates maturing in 2010. In January and February, 2006, MSHA issued a total of $18 million 2005 Series A and B General Housing Draw Down bonds at par, with variable interest rates maturing in 2010.

In January and February 2006, MSHA redeemed a total of $32.2 million of various series of its Mortgage Purchase Program bonds at par. The bonds carried interest rates from 3.65% to 6.1%, and maturities from 2006 to 2037. In March 2006, MSHA committed to redeem an additional $13.6 million of Mortgage Purchase Program bonds at par. On March 14, 2006, MSHA issued $125 million of various series of its Mortgage Purchase Program bonds. These bonds carry interest rates ranging from 3.3% to 4.85%, with maturities from 2017 to 2036.

In accordance with the Higher Education Loan Purchase Program, the Finance Authority of Maine purchased FFELP student loan portfolios totaling approximately $9 million, $92 thousand, and $24 million in July 2006.

On September 7, 2006, the Maine Community College System (MCCS) issued $24.3 million of revenue bonds through the Maine Health and Higher Education Facilities Authority (MHHEFA) with an interest rate of 4.7% and a final maturity of July 2036. Approximately $23.2 million will be used for construction of new residence halls at three colleges.

## NOTE 17 – SPECIAL ITEMS

Chapter 457 PL 2005 established the State Transit, Aviation and Rail Transportation (STAR) Fund to support purchasing, operating, maintaining, improving, repairing, constructing, and managing the State's transportation buildings, structures and improvements, and equipment. During 2006, the Airport fund transferred $4 million in assets and the Highway Fund transferred $31.2 million in assets to the STAR fund.

# STATE OF MAINE
## BUDGETARY COMPARISON SCHEDULE
### MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

| | General Fund | | | | Highway Fund | | | |
|---|---|---|---|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance with Final Budget | Original Budget | Final Budget | Actual | Variance with Final Budget |
| **Revenues** | | | | | | | | |
| Taxes | $ 2,556,608 | $ 2,739,523 | $ 2,813,763 | $ 74,240 | $ 229,661 | 226,777 | $ 221,578 | $ (5,199) |
| Assessments and Other | 95,778 | 100,386 | 101,387 | 1,001 | 89,736 | 93,544 | 93,839 | 295 |
| Federal Grants | 26,660 | 23,477 | 20,066 | (3,411) | - | - | - | - |
| Service Charges | 36,232 | 41,740 | 41,395 | (345) | 7,293 | 7,293 | 7,138 | (155) |
| Income from Investments | 6,047 | 6,364 | 10,377 | 4,013 | 1,556 | 1,300 | 1,834 | 534 |
| Miscellaneous Revenue | 4,314 | 7,638 | (67,753) | (75,391) | 516 | 405 | 821 | 416 |
| **Total Revenues** | 2,725,639 | 2,919,128 | 2,919,235 | 107 | 328,762 | 329,319 | 325,210 | (4,109) |
| **Expenditures** | | | | | | | | |
| Governmental Support and Operations | 250,979 | 253,967 | 228,571 | 25,396 | 35,201 | 35,386 | 34,304 | 1,082 |
| Economic Development & Workforce Training | 42,997 | 48,187 | 45,361 | 2,826 | - | - | - | - |
| Education | 1,153,241 | 1,286,445 | 1,277,692 | 8,753 | - | - | - | - |
| Health and Human Services | 946,482 | 1,038,472 | 970,178 | 68,294 | - | - | - | - |
| Business Licensing & Regulation | - | - | - | - | - | - | - | - |
| Natural Resources Development & Protection | 71,527 | 73,138 | 70,525 | 2,613 | 42 | 41 | 33 | 8 |
| Justice and Protection | 231,137 | 232,614 | 227,565 | 5,049 | 37,285 | 37,191 | 35,453 | 1,738 |
| Arts, Heritage & Cultural Enrichment | 8,651 | 8,482 | 8,433 | 49 | - | - | - | - |
| Transportation Safety & Development | 4,179 | 266 | 188 | 78 | 265,138 | 354,505 | 245,456 | 109,049 |
| **Total Expenditures** | 2,709,193 | 2,941,571 | 2,828,513 | 113,058 | 337,666 | 427,123 | 315,246 | 111,877 |
| **Revenues Over (Under) Expenditures** | 16,446 | (22,443) | 90,722 | 113,165 | (8,904) | (97,804) | 9,964 | 107,768 |
| **Other Financing Sources (Uses)** | | | | | | | | |
| Operating Transfers Net | (53,473) | (61,858) | (36,510) | 25,348 | 1,665 | 1,665 | (1) | (1,666) |
| Proceeds from Pledged Future Revenues | | | | | | | | |
| **Net Other Financing Sources (Uses)** | (53,473) | (61,858) | (36,510) | 25,348 | 1,665 | 1,665 | (1) | (1,666) |
| **Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses** | $ (37,027) | $ (84,301) | $ 54,212 | $ 138,513 | $ (7,239) | $ (96,139) | $ 9,963 | $ 106,102 |
| Fund Balances at Beginning of Year | | | 232,274 | | | | 119,196 | |
| Fund Balances at End of Year | | | $ 286,486 | | | | $ 129,159 | |

| Federal Funds | | | | Other Special Revenue Fund | | | |
|---|---|---|---|---|---|---|---|
| Original Budget | Final Budget | Actual | Variance with Final Budget | Original Budget | Final Budget | Actual | Variance with Final Budget |
| $ - | $ - | $ - | $ - | $ 152,023 | $ 153,170 | $ 171,346 | $ 18,176 |
| - | - | - | - | 108,956 | 109,847 | 93,667 | (16,180) |
| 2,506,450 | 2,829,216 | 2,858,339 | 29,123 | 16,933 | 20,296 | 3,544 | (16,752) |
| - | 12 | 296 | 284 | 179,587 | 183,976 | 132,307 | (51,669) |
| 7,989 | - | 654 | 654 | 2,093 | 2,085 | 4,033 | 1,948 |
| (7,087) | 8,180 | 4,421 | (3,759) | 185,800 | 199,275 | 52,272 | (147,003) |
| 2,507,352 | 2,837,408 | 2,863,710 | 26,302 | 645,392 | 668,649 | 457,169 | (211,480) |
| 10,277 | 24,814 | 8,521 | 16,293 | 149,017 | 154,182 | 145,715 | 8,467 |
| 138,968 | 143,033 | 85,247 | 57,786 | 23,718 | 32,717 | 25,628 | 7,089 |
| 181,259 | 201,275 | 182,374 | 18,901 | 5,156 | 7,132 | 4,237 | 2,895 |
| 1,867,083 | 2,091,545 | 2,226,518 | (134,973) | 418,029 | 433,558 | 275,961 | 157,597 |
| 994 | 1,477 | 989 | 488 | 61,417 | 69,312 | 54,218 | 15,094 |
| 38,395 | 58,057 | 38,005 | 20,052 | 97,966 | 110,433 | 72,771 | 37,662 |
| 134,252 | 147,146 | 119,565 | 27,581 | 30,255 | 35,100 | 26,909 | 8,191 |
| 3,020 | 3,241 | 2,488 | 753 | 1,306 | 1,306 | 884 | 422 |
| 199,183 | 227,183 | 199,714 | 27,469 | 35,040 | 41,699 | 34,685 | 7,014 |
| 2,573,431 | 2,897,771 | 2,863,421 | 34,350 | 821,904 | 885,439 | 641,008 | 244,431 |
| (66,079) | (60,363) | 289 | 60,652 | (176,512) | (216,790) | (183,839) | 32,951 |
| 2,507,352 | (7,264) | 15,485 | 22,749 | 173,515 | 170,279 | 141,615 | (28,664) |
| | | | | | | 22,111 | 22,111 |
| 2,507,352 | (7,264) | 15,485 | 22,749 | 173,515 | 170,279 | 163,726 | (6,553) |
| $ 2,441,273 | $ (67,627) | $ 15,774 | $ 83,401 | $ (2,997) | $ (46,511) | $ (20,113) | $ 26,398 |
| | | 6,967 | | | | 268,586 | |
| | | $ 22,741 | | | | $ 248,473 | |

# STATE OF MAINE
## BUDGETARY COMPARISON SCHEDULE
### BUDGET TO GAAP RECONCILIATION

Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

| | General Fund | Highway Fund | Federal Funds | Special Revenue Fund |
|---|---|---|---|---|
| Fund Balances - Non-GAAP Budgetary Basis | $ 286,486 | $ 129,159 | $ 22,741 | $ 248,473 |
| **Basis Differences** | | | | |
| Revenue Accruals/Adjustments: | | | | |
| Taxes Receivable | 200,222 | 827 | - | 11,038 |
| Intergovernmental Receivables | - | - | 432,273 | - |
| Other Receivables | 106,096 | 2,413 | 198,746 | 58,263 |
| Due from Component Units | - | | | |
| Due from Other Funds | 13,767 | 16,342 | 26,063 | 26,942 |
| Other Assets | 3,299 | - | 1,680 | - |
| Deferred Revenues | (195,953) | (7,510) | (1,685) | (22,757) |
| Total Revenue Accruals/Adjustments | 127,431 | 12,072 | 657,077 | 73,486 |
| Expenditure Accruals/Adjustments: | | | | |
| Accounts Payable | (392,881) | (47,452) | (631,694) | (32,124) |
| Due to Component Units | (2,235) | (40) | (4,364) | (4,542) |
| Bonds Issued | - | - | - | - |
| Accrued Liabilities | (34,358) | (8,970) | (6,715) | (6,276) |
| Taxes Payable | (130,001) | | | |
| Due to Other Funds | (32,073) | (75,057) | (14,855) | (20,984) |
| Total Expenditure Accruals/Adjustments | (591,548) | (131,519) | (657,628) | (63,926) |
| Fund Balances - GAAP Basis | $ (177,631) | $ 9,712 | $ 22,190 | $ 258,033 |

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
## BUDGETARY REPORTING

**Statutory/Budgetary Presentation**

In accordance with statute, the Governor presents a biennial budget for the General Fund and special revenue funds to the Legislature for enactment or revision. Effective November 27, 1995, a State Constitutional Amendment provided the Governor a "line item" veto of dollar amounts, allowing a dollar substitution for those amounts disapproved, as long as an appropriation or allocation is not increased (or a deappropriation or deallocation decreased) either in the specified line or in any other line in the legislative document. Another Constitutional Amendment requires the State to fund at least 90 percent of the annual cost of future mandates imposed on local governments; any exception requires a two-thirds vote of the elected members of the House and Senate.

Once passed and signed, the budget becomes the financial plan for the next biennium. It includes proposed expenditures for all departments and agencies, interest and debt redemption charges, and expenditures for capital projects to be undertaken and executed during each fiscal year. The budget also includes anticipated revenues and any other means of financing expenditures. The State Budget Officer is required to use the revenue projections of the Revenue Forecasting Committee in preparing the General Fund and Highway Fund budgets.

Exceptional circumstances do not apply to new programs or program expansions that go beyond existing program criteria and operation.

Budgetary control is maintained at the program and line category level at which appropriations and allocations are approved by the Legislature, principally through a quarterly allotment system. The State Budget Officer and the Governor must approve budget revisions during the year, reflecting program changes or intradepartmental administrative transfers. Except in specific instances, only the Legislature may transfer appropriations between departments. Increases in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budget. For the year ended June 30, 2006, the legislature approved $218 million of supplemental appropriations for the General Fund.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of the applicable appropriation or allocation, is employed in governmental fund types. For financial statement purposes, encumbrances outstanding at June 30 are shown as reservations of fund balance. Unencumbered appropriations in the General Fund and Highway Fund lapse at June 30 unless, by law, they are carried forward to a subsequent year. Amounts carried forward are shown as reservations of fund balance.

The State's budget is prepared primarily on a cash basis. Sales, income, corporate and fuel taxes include a modified accrual basis adjustment to recognize revenues that are expected to be collected within 60 days of the end of the fiscal year.

The Budgetary Comparison Schedule is presented as Required Supplementary Information (RSI) in this report. Actual amounts in this schedule are presented on a budgetary basis. Because this basis differs from accounting principles generally accepted in the United States of America (GAAP), a reconciliation between the budgetary and GAAP basis is presented in the RSI.

The various funds and programs within funds utilize a number of different budgetary control processes. Annual legislative appropriations and revenue estimates are provided for most "operating" funds.

The original executive budget and original legislative appropriations provide general purpose (unrestricted) revenue estimates in order to demonstrate compliance with constitutional provisions. Revenues restricted by law or outside grantors to a specific program are estimated at a level of detail consistent with controlling related expenditure accounts.

For programs financed from restricted revenues, spending authorization is generally contingent upon recognition of the related revenue. Reductions of spending authority occur if revenues fall short of estimates. If revenues exceed the estimate, supplemental appropriations are required before the additional resources can be spent.

The budgetary comparison schedule presented for the General Fund, the Highway Fund, the Federal Fund, and the Other Special Revenue Fund presents the original and final appropriated budgets for fiscal year 2006-2007, as well as the actual resource inflows, outflows and fund balances stated on the budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriation bills as of June 29, 2005, and includes encumbrances carried forward from the prior year.

Generally accepted accounting principles (GAAP) require that the final legal budget be reflected in the "final budget" column. Therefore updated revenue estimates available for appropriations as of March 29, 2006, rather than the amounts shown in the original budget, are reported.

The final appropriations budget represents original and supplemental appropriations, carry-forwards, approved transfers, and executive order reductions. Expenditures, transfers out, other financing uses, and encumbrances are combined and classified by policy area rather than being reported by character and function as shown in the GAAP statements. This policy area classification is used to better reflect organizational responsibility and to be more consistent with the budget process.

**Compliance at the Legal Level of Budgetary Control**

The schedules on pages 135 through 143 depict budgeted to actual expenditures at the Department level, which is the legal level of budgetary control for all governmental funds.


DIRIGO
MAINE

## Schedule of Funding Progress

| | (a) | (b) | (b-a) | (a/b) | (c) | (b-a)/c) |
|---|---|---|---|---|---|---|
| Actuarial Valuation Date | Actuarial Value Of Assets | Actuarial Accrued Liability (AAL) – Entry Age | Unfunded AAL (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL (as a percentage of covered payroll) |
| June 30, 2006 | 7,556,514,663 | 10,598,346,071 | 3,041,831,408 | 71.3% | 1,546,315,522 | 196.7% |
| June 30, 2005 | 7,013,846,148 | 10,048,587,643 | 3,034,741,495 | 69.8% | 1,516,390,862 | 200.1% |
| June 30, 2004 | 6,498,608,717 | 9,485,605,608 | 2,986,996,891 | 68.5% | 1,472,429,214 | 202.9% |
| June 30, 2003 | 6,085,632,834 | 9,007,851,422 | 2,922,218,588 | 67.6% | 1,442,278,362 | 202.6% |
| June 30, 2002 | 5,920,475,637 | 8,511,834,626 | 2,591,358,989 | 69.6% | 1,413,262,420 | 183.4% |
| June 30, 2001 | 5,844,838,370 | 7,997,931,582 | 2,153,093,212 | 73.1% | 1,326,375,573 | 162.3% |
| June 30, 2000 | 5,528,795,711 | 7,491,075,545 | 1,962,279,834 | 73.8% | 1,271,009,158 | 154.4% |
| June 30, 1999 | 4,881,389,092 | 7,053,934,465 | 2,172,545,373 | 69.2% | 1,209,804,594 | 179.6% |

## Schedule of Employer Contributions

| Year Ended | Annual Required Contribution | Annual Contribution | Percentage Contributed |
|---|---|---|---|
| 2006 | 286,438,610 | 303,438,610 | 105.9% |
| 2005 | 261,697,901 | 274,697,901 | 105.0% |
| 2004 | 251,482,848 | 273,482,848 | 108.7% |
| 2003 | 252,709,148 | 263,209,148 | 104.2% |
| 2002 | 242,486,089 | 242,486,089 | 100.0% |
| 2001 | 247,526,221 | 247,526,221 | 100.0% |
| 2000 | 232,878,658 | 236,878,658 | 101.7% |
| 1999 | 246,155,629 | 268,001,527 | 108.9% |

## Required Supplementary Information – Participating Local District Plan

# Schedule of Funding Progress

| | (a) | (b) | (b-a) | (a/b) | (c) | (b-a)/c) |
|---|---|---|---|---|---|---|
| Actuarial Valuation Date | Actuarial Value Of Assets | Actuarial Accrued Liability (AAL) – Entry Age | Unfunded AAL (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL (as a percentage of covered payroll) |
| June 30, 2006 | 1,974,083,999 | 1,759,072,188 | (215,011,811) | 112.2% | 326,272,608 | -65.9% |
| June 30, 2005 | 1,874,310,141 | 1,641,144,382 | (233,165,759) | 114.2% | 304,975,678 | -76.5% |
| June 30, 2004 | 1,774,950,786 | 1,582,991,084 | (191,959,702) | 112.1% | 292,321,815 | -65.7% |
| June 30, 2003 | 1,701,572,665 | 1,463,437,856 | (238,134,809) | 116.3% | 277,032,661 | -86.0% |
| June 30, 2002 | 1,692,033,523 | 1,377,659,381 | (314,374,142) | 122.8% | 268,161,476 | -117.2% |
| June 30, 2001 | 1,544,720,492 | 1,427,090,054 | (117,630,438) | 108.2% | 254,155,180 | -46.3% |
| June 30, 2000 | 1,498,729,722 | 1,351,640,782 | (147,088,940) | 110.9% | 244,163,272 | -60.2% |
| June 30, 1999 | 1,354,840,239 | 1,278,819,201 | (76,021,038) | 105.9% | 233,507,942 | -32.6% |

# Schedule of Employer Contributions

| Year Ended | Annual Required Contribution | Annual Contribution | Percentage Contributed |
|---|---|---|---|
| 2006 | 8,449,017 | 8,577,898 | 101.5% |
| 2005 | 7,587,753 | 7,594,557 | 100.1% |
| 2004 | 7,664,957 | 17,089,419 | 223.0% |
| 2003 | 8,503,871 | 22,436,866 | 263.8% |
| 2002 | 10,017,340 | 173,065,194 | 1727.7% |
| 2001 | 17,122,717 | 17,122,717 | 100.0% |
| 2000 | 13,433,467 | 13,433,467 | 100.0% |
| 1999 | 23,475,495 | 23,475,495 | 100.0% |

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
## PENSION INFORMATION

**Basis of Presentation**

For financial statement reporting purposes, the information provided on the required supplementary information schedules includes amounts for employees of participating local districts (PLD) as well as combined amounts for State employees, teachers, judicial and legislative employees. Employees of participating local districts are not considered state employees.

**Actuarial Assumptions and Methods:**

The information in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation date, June 30, 2006 follows:

Funding Method

Costs are developed using the entry age normal cost method (based on a level percentage of covered payroll), except for the costs of the legislative plan, where the aggregate method is used. Under this method the accrued liability and the present value of future normal costs are determined by summing the individual entry age results for each participant. The normal cost is then determined in aggregate by spreading the present value of future normal costs as a level percentage of expected future covered payroll. Entry age is defined as the first day service is credited under the plan.

Experience gains and losses, i.e., decreases or increases in liabilities and/or in assets when actual experience differs from the actuarial assumptions, adjust the unfunded actuarial accrued liability.

Asset Valuation Method

Assets are valued for funding purposes using a three-year moving average. Under this method, the year-end actuarial asset value equals 1/3 of the current fiscal year-end fair value, as reported in the financial statements, plus 2/3 of the "expected market value." For purposes of this calculation, the "expected market value" is the preceding fiscal year's actuarial asset value, adjusted for the current fiscal year's cash flows with interest accumulated at the actuarial assumed rate of return on investments.

Amortization

The unfunded actuarial liability is amortized on a level percentage of payroll over the amortization period then in effect under statutory and constitutional requirements, which is over a 19 year closed period from June 30, 2000. In 2004, the Legislature relengthened the period to 25 years, the full extent of the then-remaining Constitutional years for the 2004-2005 biennium, and reshortened the period effective July 1, 2005 to the 13 years that will then remain in the earlier shortened period. In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 11 years remained at June 30, 2006.

The IUUAL of PLD's are amortized over periods established for each PLD separately. During fiscal years 2006 and 2005, various PLD's contributed approximately $128,881 and $6,800 to decrease their initial unpooled unfunded actuarial liability, respectively. The Consolidated Plan has no Pooled Unfunded Actuarial Liability.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2006 follows:

Investment Return – 7.75% per annum, compounded annually; changed from 8% used at June 30, 2005.

Salary Increases – 4.75% to 10% per year; changed from 5.5% to 9.5% used at June 30, 2005.

Mortality Rates – Active State employee members and active participating local district members, non-disabled State employee retirees and non-disabled participating local district members – UP 1994 Tables; Active teacher members and non-disabled teacher retirees – 85% of UP 1994 Tables; All recipients of disability benefits – RPA 1994 Table for pre-1995 Disabilities.

Post Retirement Benefit Increases – 3.75% per annum; changed from 4% used at June 30, 2005.

**Group Life Plan:**

The Group Life Insurance Program administered by the System provides for a life insurance benefit for active members equal to a member's annual base compensation as defined by statute. Upon retirement, life insurance coverage in the amount of the member's average final compensation is provided with a reduction of 15% per year until the greater of 40% of the average final compensation or $2,500 is reached. To be covered in retirement, retirees must have participated in the Group Life Program for a minimum of ten years. Premiums are remitted to the System by the employer. The State pays a premium rate of $0.30 per $1,000 of coverage per month for active State employees. Teachers and employees of participating local districts pay a premium rate of $0.22 and $0.46 per $1,000 of coverage per month, respectively, some or all of which may be deducted from employees' compensation as per individual agreements with employers and employees. Assumptions used to determine the actuarial liability are the same as for the pension plan. At June 30, 2006 and 2005, the net assets held in trust for group life insurance benefits were $43.5 million and $41.8 million, respectively. At June 30, 2006 and 2005, the plan had actuarially determined liabilities of $129.8 and $127 million, respectively.

## Required Supplementary Information –
## Information about Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Assets accounted for under the modified approach include 8,836 highway miles or 17,952 lane miles of roads and 2,967 bridges having a total deck area of 11.5 million square feet that the State is responsible to maintain.

In order to utilize the modified approach, the State is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the State.
- Document that the assets are being preserved at, or above, the established condition level.

Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

<u>**Highways**</u>

**Measurement Scale for Highways**

The Maine Department of Transportation (MDOT) uses six indicators to determine the condition of highway adequacy. The six indicators and their relative point weighting are listed in the table below.

| Data Element | Point Rating (%) | Description |
|---|---|---|
| Pavement Condition Rating (PCR) | 45 | PCR is defined as the composite condition of the pavement on a roadway only, and is compiled from the severity and extent of pavement distresses such as cracking, rutting and patching. It is the key indicator used to determine the optimum time to treat a particular section of road. Points decrease as PCR decreases. |
| Safety | 20 | Statewide crash rates are used to allocate points. Locations with high rates get fewer points. |
| Backlog (Built v Unbuilt roadway) | 15 | A "Built" road is one that has been constructed to a modern standard, usually post 1950. This includes adequate drainage, base, and pavement to carry the traffic load, and adequate sight distance and width to meet current safety standards. "Unbuilt" (backlog) is defined as a roadway section that has not been built to modern standards. Yes or No (15 or 0). |
| Annual Average Daily Traffic divided by the hourly highway capacity (AADT/C) | 10 | This ratio measures how intensely a highway is utilized. As a highway facility's AADT/C ratio increases, the average speed of vehicles on that facility tends to decrease. This decrease in average speed is evidence of reduced mobility. As congestion increases, points decrease (0-10). |
| Posted Speed | 5 | Lower speeds equal fewer points. |
| Paved Shoulder | 5 | In general, roadways with paved shoulders perform at a higher level and last longer than those without shoulders or with only gravel shoulders. Yes or No (5 or 0). |
| | 100 | |

**Bridges**

MDOT uses four separate factors to obtain a numerical value used to indicate the ability of bridges to remain in service at the current level of usage. The numeric value is a percentage ranging from 0% to represent an entirely insufficient or deficient bridge, and 100% to represent an entirely sufficient bridge. The four indicators and their relative point weighting are listed in the table below. The composite numeric value is based on the sufficiency rating formula in the Recording and Coding Guide for Structure Inventory and Appraisal of the Nation's Bridges.

| Data Element | Point Rating (%) | Description |
|---|---|---|
| Structural Adequacy and Safety | 55 | This category considers inventory rating, superstructure, substructure and culverts. |
| Serviceability and Functional Obsolescence | 30 | Serviceability and functional obsolescence that addresses the number of lanes, average daily traffic, roadway width, bridge width, deck condition, under clearances, waterway adequacy, alignment, and defense highway designation. |
| Essentiality for Public Use | 15 | This considers detour length, average daily traffic, and defense highway designation. |
| Special Reductions | (13) | The sufficiency rating also includes consideration of special reductions for detour length, safety features, and type of structure. |

**Assessed Conditions**
The following table shows adequacy ratings for maintenance levels from Excellent to Poor.

| Adequacy Rating | Total |
|---|---|
| Excellent | 80-100 |
| Good | 70-80 |
| Fair | 60-70 |
| Poor | 0-60 |

MDOT intends to maintain highways and bridges at an adequacy rating of 60 or higher. The following table shows adequacy ratings achieved by MDOT.

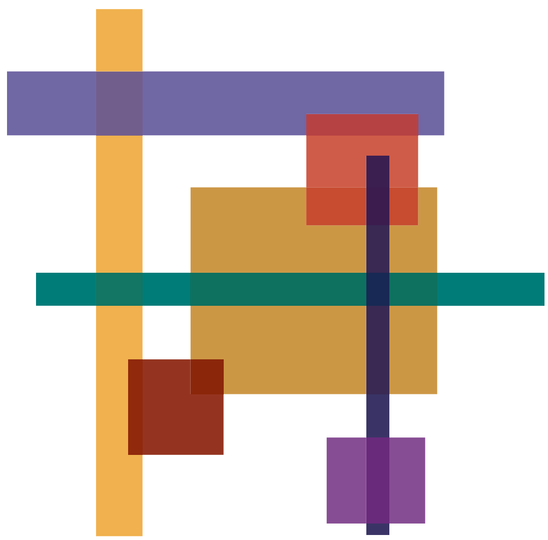
| Fiscal Year | Highways | Bridges |
|---|---|---|
| 2006 | 75.0 | 77.0 |
| 2005 | 79.3 | 77.0 |
| 2004 | 78.2 | 77.0 |

**Budgeted and Estimated Costs to Maintain**
The following table presents the State's preservation costs for the past five fiscal years. It also shows the estimate of spending necessary to preserve and maintain the roads and bridges at, or above, a sufficiency rating of 60 for both highways and bridges (in millions). DOT did not collect estimated information in this format, prior to FY 2003.

| Fiscal Year | Estimated Spending | Actual Spending |
|---|---|---|
| 2007 | $ 61 | $ - |
| 2006 | 52 | 51.1 |
| 2005 | 48 | 46.1 |
| 2004 | 30 | 35.3 |
| 2003 | 36 | 34.3 |
| 2002 | - | 41.4 |

**Transportation Bonds**
Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amounts authorized by Chapter 33, P&S 2003 and Chapter 38, P&S 2001, none was spent during fiscal year 2006.

# STATE OF MAINE
# REPORTS ON INTERNAL CONTROL AND COMPLIANCE
# FOR THE YEAR ENDED JUNE 30, 2006



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DIRECTOR OF AUDIT AND ADMINISTRATION

# REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of and for the year ended June 30, 2006, which collectively comprise the State of Maine's basic financial statements, and have issued our report thereon dated January 31, 2007. Our report was modified to include a reference to other auditors and modified as to consistency because of changes in the application of accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Child Development Services System, Finance Authority of Maine, Maine Educational Center for the Deaf and Hard of Hearing, Loring Development Authority, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine State Housing Authority, Maine State Retirement System, Maine Community College System, Maine Technology Institute, Northern New England Passenger Rail Authority, and University of Maine System, as described in our report on the State of Maine's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Maine Educational Loan Authority and the Maine Technology Institute were not audited in accordance with *Government Auditing Standards*.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit, we considered the State of Maine's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Maine's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06-01 through 06-05.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 06-01, 06-02, and 06-05 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Maine's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the State of Maine in a separate letter dated January 31, 2007.

This report is intended solely for the information and use of management, the Legislature, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Neria R. Douglass

Neria R. Douglass, JD, CIA
State Auditor

January 31, 2007

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# REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the State of Maine with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The State of Maine's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Maine's management. Our responsibility is to express an opinion on the State of Maine's compliance based on our audit.

The State of Maine's basic financial statements include the operations of the following component units: the Child Development Services System, Finance Authority of Maine, Maine Educational Center for the Deaf and Hard of Hearing, Loring Development Authority, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine State Housing Authority, Maine State Retirement System, Maine Community College System, Maine Technology Institute, Northern New England Passenger Rail Authority, and University of Maine System. The federal awards that these component units received are not included in the supplementary Schedule of Expenditures of Federal Awards for the year ended June 30, 2006. Our audit, described below, did not include the operations of these component units because the component units engaged other auditors.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Maine's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Maine's compliance with those requirements.

As described in item 06-59 in the accompanying Schedule of Findings and Questioned Costs, we were unable to obtain sufficient documentation supporting the compliance of the State of Maine with Medicaid Cluster requirements regarding allowable costs, nor were we able to satisfy ourselves as to the State of Maine's compliance with those requirements by other auditing procedures.

As described in items 06-81 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with special tests and provisions requirements regarding having a functional claims management system that are applicable to its Medicaid Cluster. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with requirements applicable to this program.

As described in item 06-88 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with requirements regarding period of availability that are applicable to its National Bioterrorism Hospital Preparedness Program. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to that program.

As described in item 06-08 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with requirements regarding allowable costs that are applicable to its Social Services Block Grant program. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to that program.

As described in item 06-66 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with requirements regarding eligibility that are applicable to its State Children's Insurance Program. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to that program.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State of Maine's compliance with the requirements of the Medicaid Cluster regarding allowable costs as described in the fifth preceding paragraph, and except for noncompliance described in the four preceding paragraphs, the State of Maine complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 06-06 through 06-10, 06-12, 06-19, 06-22, 06-42, 06-53, 06-54, 06-57, 06-58, 06-60, 06-61, 06-64, 06-66, 06-67, 06-68, 06-85, 06-88, 06-93, 06-94 and 06-101.

Internal Control over Compliance

The management of the State of Maine is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Maine's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Maine's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06-06 through 06-18 and 06-20 through 06-101.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be

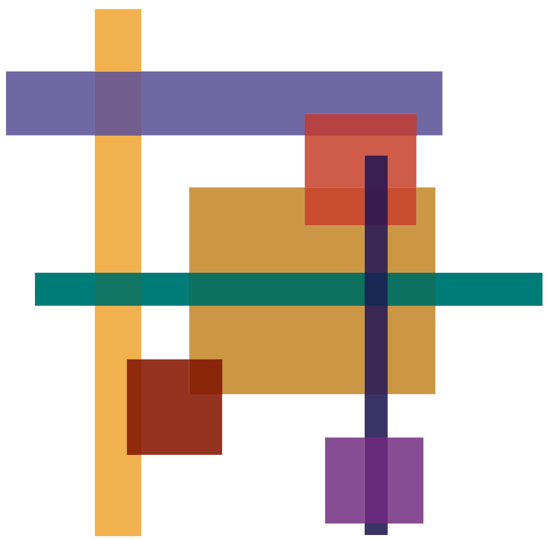
material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 06-08, 06-34, 06-59, 06-66, 06-81 and 06-88 to be material weaknesses.

This report is intended solely for the information and use of management, the Legislature, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

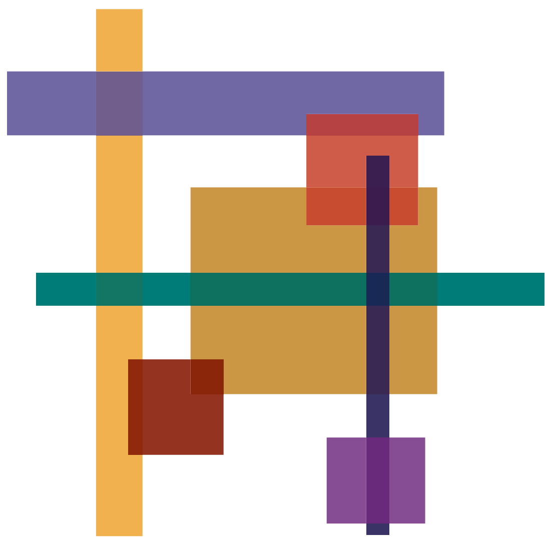
Neria R. Douglass

Neria R. Douglass, JD, CIA
State Auditor

July 13, 2007



# STATE OF MAINE
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE YEAR ENDED JUNE 30, 2006



**STATE OF MAINE**
**Schedule of Expenditures of Federal Awards**
**For the Year Ended June 30, 2006**

| Federal Department / Major Sub-Division / Federal Catalog Number | Program Title | State Agency | Expenditures | |
|---|---|---|---|---|
| **U.S. Department of Agriculture** | | | | |
| Animal & Plant Health Inspection Service | | | | |
| 10.025 | Plant & Animal Disease, Pest Control & Animal Care | Agriculture | 544,105 | |
| 10.025 | Plant & Animal Disease, Pest Control & Animal Care | Conservation | 19,888 | |
| Agricultural Marketing Service | | | | |
| 10.156 | Federal-State Marketing Improvement Program | Agriculture | 47,787 | |
| 10.162 | Inspection Grading & Standardization | Agriculture | 666,263 | |
| 10.163 | Market Protection and Promotion | Agriculture | 72,208 | |
| 10.169 | Specialty Crop Block Grant Program | Agriculture | 7,500 | |
| Farm Service Agency | | | | |
| 10.435 | State Mediation Grants | Agriculture | 51,842 | |
| Food & Nutrition Service | | | | |
| 10.550 | Food Donation | Corrections | 14,172 | |
| 10.550 | Food Donation | Education | 3,452,991 | |
| 10.557 | Special Supplemental Nutrition Program for Women, Infants and Children | Human Services | 13,155,141 | ** |
| 10.558 | Child and Adult Care Food Program | Human Services | 9,007,811 | ** |
| 10.560 | State Administrative Expenses for Child Nutrition | Education | 358,559 | |
| 10.560 | State Administrative Expenses for Child Nutrition | Human Services | 250,333 | |
| 10.572 | WIC Farmers' Market Nutrition Program (FMNP) | Human Services | 47,768 | |
| 10.574 | Team Nutrition Grants | Education | 146,367 | |
| 10.576 | Senior Farmers Market Nutrition Program | Agriculture | 822,978 | |
| Forest Service | | | | |
| 10.652 | Forestry Research | Conservation | 511,726 | |
| 10.664 | Cooperative Forestry Assistance | Conservation | 1,130,631 | |
| 10.672 | Rural Development, Forestry and Communities | Conservation | 30,000 | |
| 10.675 | Urban and Community Forestry Program | Conservation | 239,515 | |
| 10.676 | Forest Legacy Program | Conservation | 5,916,000 | |
| 10.677 | Forest Land Enhancement Program | Conservation | 204,703 | |
| 10.678 | Forest Stewardship Program | Conservation | 309,988 | |
| 10.680 | Forest Health Protection | Conservation | 21,004 | |
| Food & Nutrition Service | | | | |
| 10.999 | USDA Outreach for Low Income Elderly | Human Services | 54 | |
| **Food Stamp Cluster** | | | | |
| Food & Nutrition Service | | | | |
| 10.551 | Food Stamps | Human Services | 167,895,978 | ** |
| 10.561 | State Administrative Matching Grants for Food Stamp Program | Human Services | 8,456,002 | ** |
| **Child Nutrition Cluster** | | | | |
| Food & Nutrition Service | | | | |
| 10.553 | School Breakfast Program | Education | 6,044,767 | |
| 10.555 | National School Lunch Program | Education | 22,093,872 | |
| 10.555 | National School Lunch Program | Corrections | 4,636 | |
| 10.559 | Summer Food Service Program for Children | Education | 768,562 | |
| **Emergency Food Assistance Cluster** | | | | |
| Food & Nutrition Service | | | | |
| 10.568 | Emergency Food Assistance Program (Administrative Costs) | Agriculture | 280,381 | |
| 10.569 | Emergency Food Assistance Program (Food Commodities) | Agriculture | 1,447,837 | |
| **Total U.S. Department of Agriculture Federal Programs** | | | **244,021,369** | |
| **U.S. Department of Commerce** | | | | |
| Economic Development Administration | | | | |
| 11.302 | Economic Development: Support for Planning Organizations | Economic Devel | 240,744 | |
| National Oceanic & Atmospheric Administration | | | | |
| 11.405 | Anadromous Fish Conservation Act Program | Marine Resource | 58,610 | |
| 11.407 | Interjurisdictional Fisheries Act of 1986 | Marine Resource | 148,969 | |
| 11.417 | Sea Grant Support | Marine Resource | 1,338 | |
| 11.419 | Coastal Zone Management Administration Awards | Agriculture | 6,346 | |
| 11.419 | Coastal Zone Management Administration Awards | Environment | 545,681 | |
| 11.419 | Coastal Zone Management Administration Awards | Marine Resource | 268,781 | |
| 11.419 | Coastal Zone Management Administration Awards | Planning | 1,504,796 | |
| 11.463 | Habitat Conservation | Marine Resource | 40,347 | |
| 11.472 | Unallied Science Program | Marine Resource | 465,992 | |

**STATE OF MAINE**
**Schedule of Expenditures of Federal Awards**
**For the Year Ended June 30, 2006**

| Federal Department / Major Sub-Division / Federal Catalog Number | Program Title | State Agency | Expenditures | |
|---|---|---|---|---|
| 11.472 | Unallied Science Program | Salmon Comm | 1,242,260 | |
| 11.474 | Atlantic Coastal Fisheries Cooperative Management Act | Marine Resource | 458,732 | |
| 11.481 | Educational Partnership Program | Marine Resource | 73,652 | |
| 11.999 | Initiation of Logbook-based Program to Collect Lobster Catch, Effort and Landings Data | Marine Resource | 5,025 | |
| 11.999 | Lobster Ventless Trap Survey | Marine Resource | 5,213 | |
| 11.999 | Maine New Hampshire Trawl Efficiency Study | Marine Resource | 8,257 | |
| 11.999 | Identifying Habitat Associations of Early-Juvenile Cod in Nearshore Gulf of Maine Waters | Marine Resource | 88,910 | |
| 11.999 | Macro (Letter of Agreement/NMFS) | Marine Resource | 31,975 | |
| 11.999 | New Generation Trawl | Marine Resource | 4,147 | |
| 11.999 | Maine New Hampshire Inshore Trawl Survey | Marine Resource | 39,274 | |
| 11.999 | Marine Patrol JEA | Marine Resource | 153,603 | |
| 11.999 | Maine New Hampshire Inshore Trawl Survey | Marine Resource | 128,813 | |
| 11.999 | Large Whale Cooperative Management Plan | Marine Resource | 6,158 | |
| 11.999 | Marine Patrol Regulate for the Protection of Large Whales in Maine | Marine Resource | 628 | |
| 11.999 | Seasonal Movement of Atlantic Cod in The Gulf of Maine | Marine Resource | 43,989 | |
| 11.999 | NEC Northern Shrimp | Marine Resource | 2,100 | |
| 11.999 | Marine Patrol 2005 Annual OP Plan | Marine Resource | 152,036 | |
| 11.999 | Cooperative Development of Jonah Crab Trap | Marine Resource | 65 | |
| 11.999 | Penobscot River Restoration Project | Marine Resource | 1,765 | |
| 11.999 | Pinniped and Cetacean Carcass Documentation in Western ME | Marine Resource | 39,170 | |
| National Telecommunications & Information Administration | | | | |
| 11.552 | Technology Opportunities Program | Corrections | 88,157 | |
| **Total U.S. Department of Commerce Federal Programs** | | | **5,855,533** | |
| **U.S. Department of Defense** | | | | |
| Office of the Chief Engineers | | | | |
| 12.113 | State Memo of Agree Prog for the Reimb of Tech Services | Environment | 517,700 | |
| National Guard Bureau | | | | |
| 12.400 | Military Construction, National Guard | Defense | 2,913,170 | |
| 12.401 | National Guard Military Operations & Maintenance (O&M) Projects | Defense | 13,553,506 | ** |
| 12.404 | National Guard Civilian Youth Opportunities | Defense | 193,934 | |
| 12.999 | Readiness Sustainment Maintenance Center | Defense | 58,857,957 | |
| **Total U.S. Department of Defense Federal Programs** | | | **76,036,267** | |
| **U.S. Department of Housing & Urban Development** | | | | |
| Housing, Department of Housing and Urban Development | | | | |
| 14.171 | Manufactured Home Construction and Safety Standards | Professional Reg | 30,687 | |
| Community Planning & Development | | | | |
| 14.228 | Community Development Block Grants / State's Program | Economic Devel | 18,354,672 | |
| 14.238 | Shelter Plus Care | Human Services | 3,258,352 | |
| Office of Fair Housing and Equal Opportunity | | | | |
| 14.401 | Fair Housing Assistance Program: State and Local | Human Rights | 110,872 | |
| **Total U.S. Department of Housing & Urban Development Federal Programs** | | | **21,754,583** | |
| **U.S. Department of the Interior** | | | | |
| Fish & Wildlife Service | | | | |
| 15.608 | Fish and Wildlife Management Assistance | Conservation | 20,681 | |
| 15.608 | Fish and Wildlife Management Assistance | Marine Resource | 8,454 | |
| 15.614 | Coastal Wetlands Planning, Protection and Restoration Act | Inland Fisheries | 981,000 | |
| 15.615 | Cooperative Endangered Species Conservation Fund | Conservation | 11,836 | |
| 15.615 | Cooperative Endangered Species Conservation Fund | Inland Fisheries | 1,477,923 | |
| 15.616 | Clean Vessel Act | Environment | 198,321 | |
| 15.622 | Sportfishing and Boating Safety Act | Transportation | 463,796 | |
| 15.623 | North American Wetlands Conservation Fund | Conservation | 1,000,000 | |
| 15.623 | North American Wetlands Conservation Fund | Inland Fisheries | 2,000,000 | |
| 15.625 | Wildlife Conservation and Restoration | Inland Fisheries | 534,401 | |

| Federal Department / Major Sub-Division / Federal Catalog Number | Program Title | State Agency | Expenditures |
|---|---|---|---|
| 15.633 | Landowner Incentive | Conservation | 90,249 |
| 15.633 | Landowner Incentive | Inland Fisheries | 140,618 |
| Geological Survey | | | |
| 15.808 | U. S. Geological Survey: Research and Data Collection | Conservation | 8,516 |
| 15.809 | Nat'l Spatial Data Infrastructure Cooperative Agreements Program | Financial Serv | 15,000 |
| 15.810 | Nat'l Cooperative Geologic Mapping Program | Conservation | 59,541 |
| National Park Service | | | |
| 15.904 | Historic Preservation Fund Grants-in-Aid | Historic Preserve | 601,002 |
| 15.916 | Outdoor Recreation: Acquisition, Development, & Planning | Conservation | 298,968 |
| 15.916 | Outdoor Recreation: Acquisition, Development, & Planning | Transportation | 1,306,857 |
| 15.929 | Save America's Treasures | Financial Serv | 172,264 |
| Fish & Wildlife Service | | | |
| 15.999 | Atlantic Salmon Management Project | Salmon Comm | 181,528 |
| 15.999 | Flag Island Cooperative Agreement | Inland Fisheries | 6,810 |
| **Fish and Wildlife Cluster** | | | |
| Fish & Wildlife Service | | | |
| 15.605 | Sport Fish Restoration | Inland Fisheries | 1,445,975 |
| 15.605 | Sport Fish Restoration | Marine Resource | 676,857 |
| 15.611 | Wildlife Restoration | Inland Fisheries | 1,812,101 |
| **Total U.S. Department of the Interior Federal Programs** | | | **13,512,698** |
| **U.S. Department of Justice** | | | |
| Drug Enforcement Administration | | | |
| 16.005 | Public Education on Drug Abuse: Information | Public Safety | 66,236 |
| Office of Justice Programs | | | |
| 16.202 | Prisoner Reentry Initiative Demonstration (Offender Reentry) | Corrections | 408,114 |
| 16.523 | Juvenile Accountability Incentive Block Grants (JABG) | Corrections | 685,539 |
| 16.523 | Juvenile Accountability Incentive Block Grants | Human Services | 324,117 |
| 16.540 | Juvenile Justice & Delinquency Prevention_Allocation to States (State Formula Grants) | Corrections | 721,887 |
| 16.548 | Title V_Delinquency Prevention Program | Corrections | 114,239 |
| 16.549 | Part E_State Challenge Activities (Challenge Grants) | Corrections | 83,182 |
| Bureau of Justice Statistics | | | |
| 16.550 | State Justice Statistics Program for Statistical Analysis Centers | Corrections | 63,094 |
| Office of Justice Programs | | | |
| 16.554 | National Criminal History Improvement Program | Public Safety | 25,508 |
| 16.560 | Nat'l Inst of Justice Research Evaluation and Development Project Grants | Public Safety | 277,823 |
| 16.564 | Crime Lab Improvement: Comb. Offender DNA Index System Backlog Reduction | Public Safety | 120,782 |
| 16.575 | Crime Victim Assistance | Human Services | 1,674,502 |
| 16.576 | Crime Victim Compensation | Attorney General | 218,648 |
| 16.579 | Edward Byrne Memorial Formula Grant Program | Attorney General | 575,747 |
| 16.579 | Edward Byrne Memorial Formula Grant Program | Corrections | 395,680 |
| 16.579 | Edward Byrne Memorial Formula Grant Program | Public Safety | 1,499,443 |
| 16.580 | Edward Byrne Memorial State And Local Law Enforcement Assistance Discretionary Grants | Human Services | 363,058 |
| 16.582 | Crime Victim Assistance/Discretionary Grants | Human Services | 81,994 |
| 16.582 | Crime Victim Assistance/Discretionary Grants | Public Safety | 47,733 |
| 16.585 | Drug Court Discretionary Grant Program | Human Services | 280,103 |
| 16.585 | Drug Court Discretionary Grant Program | Judicial | 188,107 |
| Office on Violence Against Women | | | |
| 16.588 | Violence Against Women Formula Grants | Attorney General | 23,612 |
| 16.588 | Violence Against Women Formula Grants | Judicial | 36,309 |
| 16.588 | Violence Against Women Formula Grants | Public Safety | 933,608 |
| Office of Justice Programs | | | |
| 16.592 | Local Law Enforcement Block Grant Program | Public Safety | 197,307 |
| 16.593 | Residential Substance Abuse Treatment for State Prisoners | Corrections | 89,028 |
| 16.593 | Residential Substance Abuse Treatment for State Prisoners | Judicial | 223,280 |
| 16.593 | Residential Substance Abuse Treatment for State Prisoners | Public Safety | 334 |
| 16.606 | State Criminal Alien Assistance Program | Corrections | 125,055 |
| 16.609 | Community Prosecution and Project Safe Neighborhoods | Public Safety | 237,006 |
| Office of Community Oriented Policing Services | | | |
| 16.710 | Public Safety Partnership and Community Policing Grants | Financial Serv | 895,759 |
| 16.710 | Public Safety Partnership and Community Policing Grants | Public Safety | 611,525 |
| Office of Juvenile Justice & Delinquency Prevention | | | |
| 16.727 | Enforcing Underage Drinking Laws Program | Human Services | 371,929 |
| 16.730 | Reduction and Prevention of Children's Exposure to Violence | Human Services | 270,288 |

**STATE OF MAINE**
**Schedule of Expenditures of Federal Awards**
**For the Year Ended June 30, 2006**

| Federal Department / Major Sub-Division / Federal Catalog Number | Program Title | State Agency | Expenditures | |
|---|---|---|---|---|
| Pass Through Federal Programs | | | | |
| Office of Justice Programs | | | | |
| 16.590 | Grants to Encourage Arrest Policies and Enforcement of Protection Orders | Corrections | 133,479 | |
| (through Cumberland County, Maine) | | | | |
| **Total U.S. Department of Justice Federal Programs** | | | **12,364,055** | |
| **U.S. Department of Labor** | | | | |
| Bureau of Labor Statistics | | | | |
| 17.002 | Labor Force Statistics | Labor | 1,314,873 | |
| 17.005 | Compensation and Working Conditions | Labor | 124,039 | |
| Employment & Training Administration | | | | |
| 17.202 | Certification of Foreign Workers for Temporary Agricultural Employment | Labor | 241,460 | |
| 17.225 | Unemployment Insurance | Labor | 120,554,135 | ** |
| 17.235 | Senior Community Service Employment Program | Human Services | 493,294 | |
| 17.245 | Trade Adjustment Assistance | Labor | 7,394,122 | |
| 17.261 | WIA Pilots, Demonstrations and Research Projects | Economic Devel | 571,752 | |
| 17.261 | WIA Pilots, Demonstrations and Research Projects | Labor | 50,078 | |
| 17.262 | Employment and Training Administration Evaluations | Labor | 57 | |
| 17.266 | Work Incentive Grants | Labor | 457,350 | |
| Occupational Safety & Health Administration | | | | |
| 17.504 | Consultation Agreements | Labor | 519,484 | |
| Mine Safety & Health Administration | | | | |
| 17.600 | Mine Health and Safety Grants | Labor | 47,158 | |
| Office of the Asst Sec for Veterans' Emplmnt & Trng | | | | |
| 17.802 | Veterans' Employment Program | Labor | 751,389 | |
| 17.805 | Homeless Veterans Reintegration Project | Labor | 203,607 | |
| **Employment Service Cluster** | | | | |
| Employment & Training Administration | | | | |
| 17.207 | Employment Service/Wagner-Peyser Funded Activities | Labor | 5,254,888 | |
| 17.801 | Disabled Veterans' Outreach Program (DVOP) | Labor | 474,487 | |
| 17.804 | Local Veterans' Employment Representative Program | Labor | 323,803 | |
| **WIA Cluster** | | | | |
| Employment & Training Administration | | | | |
| 17.258 | WIA Adult Program | Labor | 2,852,581 | ** |
| 17.259 | WIA Youth Activities | Labor | 2,918,684 | ** |
| 17.260 | WIA Dislocated Workers | Governor | 33,747 | ** |
| 17.260 | WIA Dislocated Workers | Labor | 7,075,904 | ** |
| **Total U.S. Department of Labor Federal Programs** | | | **151,656,892** | |
| **U.S. Department of Transportation** | | | | |
| Federal Aviation Administration | | | | |
| 20.106 | Airport Improvement Program | Transportation | 1,029,049 | |
| Federal Motor Carrier Safety Administration | | | | |
| 20.217 | Motor Carrier Safety | Public Safety | 101,846 | |
| 20.218 | National Motor Carrier Safety | Financial Serv | 1,095 | |
| Federal Highway Administration | | | | |
| 20.219 | Recreational Trails Program | Conservation | 860,263 | |
| 20.233 | Border Enforcement Grants | Public Safety | 303,058 | |
| Federal Transit Administration | | | | |
| 20.505 | Federal Transit: Metropolitan Planning Grants | Transportation | 377,871 | |
| 20.509 | Formula Grants for Other Than Urbanized Areas | Transportation | 3,032,046 | |
| 20.513 | Capital Assistance Program for Elderly Persons & Persons w/Disabilities | Transportation | 271,711 | |
| 20.514 | Public Transportation Research | Transportation | 245,939 | |
| Research and Special Programs Administration | | | | |
| 20.703 | Interagency Hazardous Materials Pub Sector Train & Plan Gr | Defense | 23,370 | |

**STATE OF MAINE**
**Schedule of Expenditures of Federal Awards**
**For the Year Ended June 30, 2006**

| Federal Department / Major Sub-Division / Federal Catalog Number | Program Title | State Agency | Expenditures | |
|---|---|---|---|---|
| **Highway Planning and Construction Cluster** | | | | |
| Federal Highway Administration | | | | |
| 20.205 | Highway Planning and Construction | Transportation | 192,403,195 | ** |
| **Federal Transit Cluster** | | | | |
| Federal Transit Administration | | | | |
| 20.500 | Federal Transit: Capital Investment Grants | Transportation | 4,880,921 | ** |
| 20.507 | Federal Transit: Formula Grants | Transportation | 1,750,860 | ** |
| **Highway Safety Cluster** | | | | |
| National Highway Traffic Safety Administration | | | | |
| 20.600 | State and Community Highway Safety | Human Services | 164,765 | |
| 20.600 | State and Community Highway Safety | Public Safety | 921,919 | |
| 20.604 | Safety Incentive Grants for Use of Seatbelts | Public Safety | 254,454 | |
| 20.605 | Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons | Public Safety | 605,871 | |
| **Total U.S. Department of Transportation Federal Programs** | | | **207,228,233** | |
| **U. S. Department of Treasury** | | | | |
| 21.999 | CMIA Administration | Treasurer | 33,543 | |
| **Total U.S. Department of Treasury Federal Program** | | | **33,543** | |
| **Equal Employment Opportunity Commission** | | | | |
| 30.002 | Empl Discr - St & Loc - Fair Empl Pract Agcy Contracts | Human Rights | 256,340 | |
| **Total Equal Employment Opportunity Commission Federal Programs** | | | **256,340** | |
| **General Services Administration** | | | | |
| Office of the Secretary | | | | |
| 39.003 | Donation of Federal Surplus Personal Property | Financial Serv | 478,577 | |
| **Total General Service Administration Federal Programs** | | | **478,577** | |
| **National Foundation on the Arts & the Humanities** | | | | |
| National Endowment for the Arts | | | | |
| 45.024 | Promotion of the Arts: Grants to Organizations and Individuals | Arts | 43,000 | |
| 45.025 | Promotion of the Arts: Partnership Agreements | Arts | 641,652 | |
| National Endowment for the Humanities | | | | |
| 45.149 | Promotion of the Humanities: Division of Preservation & Access | Museum | 19,247 | |
| 45.164 | Promotion of the Humanities: Public Programs | Museum | 127,770 | |
| Institute of Museum & Library Services | | | | |
| 45.310 | Grants to States | Library | 1,054,974 | |
| **Total National Foundation on the Arts & the Humanities Federal Programs** | | | **1,886,643** | |
| **U.S. Department of Veterans Affairs** | | | | |
| Veterans Benefits Administration | | | | |
| 64.101 | Burial Expenses Allowance for Veterans | Defense | 109,848 | |
| **Total U.S. Department of Veterans Affairs Federal Programs** | | | **109,848** | |

**STATE OF MAINE**
**Schedule of Expenditures of Federal Awards**
**For the Year Ended June 30, 2006**

| Federal Department / Major Sub-Division / Federal Catalog Number | Program Title | State Agency | Expenditures |
|---|---|---|---|
| **U.S. Environmental Protection Agency** | | | |
| Office of Air & Radiation | | | |
| 66.032 | State Indoor Radon Grants | Human Services | 144,527 |
| 66.034 | Surveys, Studies, Invest., Demo. and Spec. Purp. Activ. Relating to Clean Air Act | Environment | 81,214 |
| Office of Administration | | | |
| 66.202 | Congressionally Mandated Projects | Environment | 309,394 |
| Office of Water | | | |
| 66.432 | State Public Water System Supervision | Human Services | 1,113,528 |
| 66.436 | Surveys, Studies, Investig., Demo. and Training Gr. and Coop. Agreements | Environment | 72,181 |
| 66.454 | Water Quality Management Planning | Environment | 30,520 |
| 66.461 | Regional Wetland Program Development Grants | Environment | (8) |
| 66.461 | Regional Wetland Program Development Grants | Planning | 11,469 |
| 66.463 | Water Quality Cooperative Agreements | Environment | 72,385 |
| 66.467 | Wastewater Operator Training Grant Program (Technical Assistance) | Environment | 31,105 |
| 66.468 | Capitalization Grants For Drinking Water State Revolving Funds | Human Services | 1,212,626 |
| 66.472 | Beach Monitoring & Notification Program Implementation Grants | Planning | 299,436 |
| Office of Air & Radiation | | | |
| 66.500 | Environmental Protection Consolidated Research | Conservation | 6,027 |
| Office of Administration | | | |
| 66.605 | Performance Partnership Grants | Agriculture | 503,853 |
| 66.605 | Performance Partnership Grants | Environment | 8,056,214 |
| Office of Environmental Information | | | |
| 66.608 | Environmental Info Exchange Network Grant Program & Rel Assist | Environment | 257,466 |
| 66.611 | Environmental Policy and Innovation Grants | Environment | 79,687 |
| Office of Solid Waste & Emergency Response | | | |
| 66.802 | Superfund State, Political Subdivision, and Indian Tribe-Site: Specific Cooperative Agreements | Environment | 113,376 |
| 66.805 | Leaking Underground Storage Tank Trust Fund Program | Environment | 823,366 |
| 66.809 | Superfund State and Indian Tribe Core Program Cooperative Agreements | Environment | 208,692 |
| 66.810 | CEPP Technical Assistance Grants Program | Defense | 49,769 |
| 66.817 | State and Tribal Response Program Grants | Environment | 828,146 |
| Office of Administration | | | |
| 66.999 | National Park | Environment | 38 |
| **Total U.S. Environmental Protection Agency Federal Programs** | | | **14,305,011** |
| **Nuclear Regulatory Commission** | | | |
| 77.001 | Radiation Control: Training Assistance and Advis Counseling | Human Services | 9,691 |
| **Total Nuclear Regulatory Commission Federal Programs** | | | **9,691** |
| **U.S. Department of Energy** | | | |
| Office of Energy Efficiency & Renewable Energy | | | |
| 81.041 | State Energy Program | Public Utilities | 366,250 |
| 81.117 | Energy Efficiency & Renew. Energy Info., Dissem., Outreach, Train & Tech. Anal./Assist. | Public Utilities | 25,198 |
| 81.119 | State Energy Program Special Projects | Public Utilities | 544,198 |
| 81.999 | State Housing Oil and Propane Program | Planning | 3,245 |
| 81.999 | 2005 Natural Gas Pipeline Safety | Public Utilities | 111,808 |
| **Total U.S. Department of Energy Federal Programs** | | | **1,050,699** |

| Federal Department / Major Sub-Division / Federal Catalog Number | Program Title | State Agency | Expenditures | |
|---|---|---|---|---|
| **U.S. Department of Education** | | | | |
| Office of Vocational & Adult Education | | | | |
| 84.002 | Adult Education_State Grant Program | Corrections | 4,098 | |
| 84.002 | Adult Education_State Grant Program | Education | 2,009,383 | |
| Office of Elementary & Secondary Education | | | | |
| 84.010 | Title I Grants to Local Educational Agencies | Education | 48,175,402 | ** |
| 84.011 | Migrant Education: State Grant Program | Education | 486,850 | |
| 84.013 | Title I Program for Neglected and Delinquent Children | Corrections | 210,180 | |
| Office of Assistant Secretary for Vocational & Adult Education | | | | |
| 84.048 | Vocational Education_Basic Grants to States | Corrections | 65,322 | |
| 84.048 | Vocational Education_Basic Grants to States | Education | 5,675,360 | |
| Office of Special Education & Rehabilitative Services | | | | |
| 84.126 | Rehabilitation Services: Vocational Rehabilitation Grants to States | Labor | 14,928,787 | ** |
| 84.161 | Rehabilitation Services: Client Assistance Program | Labor | 148,839 | |
| 84.169 | Independent Living: State Grants | Labor | 441,904 | |
| 84.181 | Special Education: Grants for Infants and Families with Disabilities | Education | 2,223,362 | |
| Office of Safe and Drug-Free Schools | | | | |
| 84.184 | Safe and Drug-Free Schools and Community: National Programs | Education | 52,429 | |
| 84.184 | Safe and Drug-Free Schools and Community: National Programs | Human Services | 106,799 | |
| Office of the Assistant Secretary for Postsecondary Education | | | | |
| 84.185 | Byrd Honors Scholarships | Education | 161,250 | |
| Office of Elementary & Secondary Education | | | | |
| 84.186 | Safe and Drug-Free Schools and Community: State Grants | Corrections | (242) | |
| 84.186 | Safe and Drug-Free Schools and Community: State Grants | Education | 24,707 | |
| 84.186 | Safe and Drug-Free Schools and Community: State Grants | Human Services | 2,101,807 | |
| Office of Special Education & Rehabilitative Services | | | | |
| 84.187 | Supported Employment Services for Individuals with Severe Disabilities | Labor | 336,365 | |
| Office of Elementary & Secondary Education | | | | |
| 84.196 | Education for Homeless Children and Youth | Education | 220,557 | |
| 84.213 | Even Start: State Educational Agencies | Education | 992,201 | |
| 84.215 | Fund for the Improvement of Education | Education | 44,103 | |
| Office of Special Education & Rehabilitative Services | | | | |
| 84.224 | Assistive Technology | Education | 643,047 | |
| Office of Vocational & Adult Education | | | | |
| 84.243 | Tech-Prep Education | Education | 534,229 | |
| Office of Safe and Drug-Free Schools | | | | |
| 84.255 | Literacy Program for Prisoners | Corrections | 100,635 | |
| Office of Special Education & Rehabilitative Services | | | | |
| 84.265 | Rehabilitation Training: State Vocational Rehabilitation Unit In-Service Training | Labor | 91,079 | |
| Office of Elementary & Secondary Education | | | | |
| 84.287 | Twenty First Century Community Learning Centers | Education | 5,274,579 | ** |
| 84.298 | State Grants for Innovative Programs | Corrections | 2,343 | |
| 84.298 | State Grants for Innovative Programs | Education | 962,242 | |
| 84.318 | Education Technology State Grants | Corrections | 17,573 | |
| 84.318 | Education Technology State Grants | Education | 3,385,906 | |
| 84.323 | Special Ed: State Personnel Development | Education | 466,765 | |
| 84.326 | Special Ed: Tech. Asst. & Dissem. To Imp Sve. & Results for Child. w/Disabilities | Education | 406,724 | |
| 84.330 | Advanced Placement Program | Education | 574,777 | |
| Office of Vocational & Adult Education | | | | |
| 84.331 | Grants to States for Incarcerated Youth Offenders | Corrections | 30,958 | |
| Office of Elementary & Secondary Education | | | | |
| 84.332 | Comprehensive School Reform Demonstration | Education | 792,764 | |
| Office of the Asst Sec for Postsecondary Education, Higher Education Programs | | | | |
| 84.334 | Gaining Early Awareness and Readiness for Undergraduate Programs | Education | 2,440,916 | |
| 84.336 | Teacher Quality Enhancement Grants | Education | 19,662 | |
| Office of Vocational & Adult Education | | | | |
| 84.346 | Vocational Education: Occupational and Employment Information State Grants | Labor | 120,884 | |
| Office of Elementary & Secondary Education | | | | |
| 84.357 | Reading First State Grants | Education | 3,186,979 | |
| 84.358 | Rural Education (REAP) | Corrections | 5,630 | |
| 84.358 | Rural Education (REAP) | Education | 2,210,977 | |
| 84.365 | English Language Acquisition Grants | Education | 503,278 | |
| 84.366 | Mathematics & Science Partnerships | Education | 511,656 | |
| 84.367 | Improving Teacher Quality State Grants | Corrections | 15,312 | |
| 84.367 | Improving Teacher Quality State Grants | Education | 13,625,525 | |
| 84.369 | Grants for State Assessments and Related Activities | Education | 2,960,805 | |

| Federal Department / Major Sub-Division / Federal Catalog Number | Program Title | State Agency | Expenditures | |
|---|---|---|---|---|
| U.S. Department of Education | | | | |
| 84.938 | Hurricane Education Recovery | Education | 87,250 | |
| **Special Education Cluster** | | | | |
| Office of Special Education & Rehabilitative Services | | | | |
| 84.027 | Special Education: Grants to States | Corrections | 49,840 | ** |
| 84.027 | Special Education: Grants to States | Education | 49,576,969 | ** |
| 84.173 | Special Education: Preschool Grants | Education | 2,509,015 | ** |
| **Total U.S. Department of Education Federal Programs** | | | **169,517,782** | |
| **National Archives & Records Administration** | | | | |
| 89.005 | Cooperative Agreements to Support the Programs of the NARA | State | 142,978 | |
| **Total National Archives & Records Administration** | | | **142,978** | |
| **Election Assistance Commission** | | | | |
| 90.401 | Help America Vote Act Requirements Payments | State | 3,855,625 | |
| **Total Election Assistance Commission** | | | **3,855,625** | |
| **U.S. Department of Health & Human Services** | | | | |
| Administration on Aging | | | | |
| 93.003 | Public Health and Social Services Emergency Fund | Defense | 72,586 | |
| 93.003 | Public Health and Social Services Emergency Fund | Public Safety | 242,145 | |
| 93.006 | State & Terr. & Tech. Assist. Cap. Dev. Minority HIV/AIDS Demo. Prog. | Human Services | 27,604 | |
| 93.041 | Spc Prg/Agng-Ttl VII, Ch 3-Pro /Prev of Eld Abu, Neg & Expl | Human Services | 19,575 | |
| 93.042 | Spc Prg/Agng-Ttl VII, Ch 2-Long Term Ombudsman | Human Services | 70,140 | |
| 93.043 | Spc Prg/Agng-Ttl III, Part D-Disease Prev & Hlth Prom Ser | Human Services | 107,037 | |
| 93.048 | Spc Prg /Agng-Ttl IV & II, Discretionary Projects | Human Services | 377,550 | |
| 93.051 | Alzheimer's Disease Demonstration Grants to States | Human Services | 237,385 | |
| 93.052 | National Family Caregiver Support | Human Services | 704,943 | |
| Substance Abuse & Mental Health Service Adm | | | | |
| 93.104 | Comprehensive Community Mental Health Svcs for Children with SED | Human Services | 423,931 | |
| Health Resources & Services Adm | | | | |
| 93.110 | Maternal and Child Health Federal Consolidated Programs | Human Services | 353,349 | |
| Centers for Disease Control & Prevention | | | | |
| 93.116 | Project Grants and Coop. Ag. for Tuberculosis Control Programs | Human Services | 193,298 | |
| Administration for Children & Families | | | | |
| 93.127 | Emergency Medical Services for Children | Public Safety | 179,186 | |
| Health Resources & Services Adm | | | | |
| 93.130 | Primary Care Services: Resource Coord & Development | Human Services | 210,095 | |
| Centers for Disease Control & Prevention | | | | |
| 93.136 | Injury Prevention and Control Research and State and Comm Based Progs | Human Services | 472,560 | |
| Substance Abuse & Mental Health Service Adm | | | | |
| 93.150 | Projects for Assistance in Transition from Homelessness | Human Services | 254,990 | |
| Health Resources & Services Adm | | | | |
| 93.165 | Grants for State for Loan Repayment Program | Human Services | 183,288 | |
| Centers for Disease Control & Prevention | | | | |
| 93.197 | Childhood Lead Poisoning Prevention Project (CLPPP) | Human Services | 318,049 | |
| Substance Abuse & Mental Health Service Adm | | | | |
| 93.230 | Consolidated Knowledge Development and Application Program | Human Services | 1,932,218 | |
| 93.234 | Traumatic Brain Injury State Demonstration Grant Program | Human Services | 176,519 | |
| 93.238 | Coop. Agreements for State Treatment Outcomes & Perf. Pilot Studies Enhance | Human Services | 9,444 | |
| Health Resources & Services Administration | | | | |
| 93.241 | State Rural Hospital Flexibility Program | Human Services | 191,926 | |
| National Institutes of Health | | | | |
| 93.242 | Mental Health Research Grants | Human Services | 1,081 | |
| Substance Abuse and Mental Health Services Administration | | | | |
| 93.243 | Substance Abuse and Mental Health Svcs_Projects of Reg. and Ntl. Signif. | Human Services | 1,494,457 | |
| 93.243 | Substance Abuse & Mental Hlth Svs: Projects of Regional & Nat'l Significance | Judicial | 258,728 | |

**STATE OF MAINE**
**Schedule of Expenditures of Federal Awards**
**For the Year Ended June 30, 2006**

| Federal Department / Major Sub-Division / Federal Catalog Number | Program Title | State Agency | Expenditures | |
|---|---|---|---|---|
| Health Resources & Services Administration | | | | |
| 93.251 | Universal Newborn Hearing Screening | Human Services | 93,331 | |
| 93.256 | State Planning Grants_Health Care Access for the Uninsured | Human Services | 151,112 | |
| 93.259 | Rural Access to Emergency Devices Grant | Public Safety | 213,419 | |
| Centers for Disease Control & Prevention | | | | |
| 93.268 | Immunization Grants | Human Services | 3,820,429 | ** |
| 93.268 | Immunization Grants | Human Services | 8,026,263 | ** |
| 93.283 | Centers for Disease Control and Prevention: Investigations and Tech Assistance | Human Services | 13,583,171 | ** |
| Health Resources & Services Administration | | | | |
| 93.301 | Small Rural Hospital Improvement Grant Program | Human Services | 122,866 | |
| Administration for Children & Families | | | | |
| 93.556 | Promoting Safe and Stable Families | Corrections | 32,032 | |
| 93.556 | Promoting Safe and Stable Families | Human Services | 2,067,860 | |
| 93.558 | Temporary Assistance for Needy Families | Human Services | 75,830,850 | ** |
| 93.563 | Child Support Enforcement | Human Services | 15,454,483 | ** |
| 93.566 | Refugee and Entrant Assistance: State Administered Programs | Human Services | 846,707 | |
| 93.566 | Refugee and Entrant Assistance: State Administered Programs | Judicial | 128,808 | |
| 93.569 | Community Services Block Grant | Human Services | 3,280,936 | |
| 93.576 | Refugee and Entrant Assistance: Discretionary Grants | Education | 93,905 | |
| 93.576 | Refugee and Entrant Assistance_Discretionary Grants | Human Services | 463,002 | |
| 93.597 | Grants to States for Access and Visitation Programs | Human Services | 100,000 | |
| 93.599 | Chafee Education & Training Vouchers Program (ETV) | Human Services | 202,675 | |
| 93.600 | Head Start | Human Services | 221,263 | |
| 93.630 | Development Disabilities Basic Support and Advocacy Grants | Financial Serv | 234,300 | |
| 93.630 | Development Disabilities Basic Support and Advocacy Grants | Human Services | 231,311 | |
| 93.643 | Children's Justice Grants to States | Human Services | 102,005 | |
| 93.645 | Child Welfare Services: State Grants | Attorney General | 1,133,205 | |
| 93.645 | Child Welfare Services: State Grants | Human Services | 1,018,843 | |
| 93.647 | Social Services Research and Demonstration | Human Services | 173,067 | |
| 93.652 | Adoption Opportunities | Human Services | 526,517 | |
| 93.658 | Foster Care: Title IV-E | Human Services | 9,735,420 | ** |
| 93.659 | Adoption Assistance | Human Services | 13,579,865 | ** |
| 93.667 | Social Services Block Grant | Human Services | 14,751,388 | ** |
| 93.669 | Child Abuse and Neglect State Grants | Human Services | 116,032 | |
| 93.671 | Family Violence Prev & Service: Grants for Battered Women's Shelters to St & Indian Tribes | Human Services | 777,403 | |
| 93.674 | Chafee Foster Care Independence Program | Human Services | 774,153 | |
| Centers for Medicare and Medicaid Services | | | | |
| 93.767 | State Children's Insurance Program | Governor | 84,756 | ** |
| 93.767 | State Children's Insurance Program | Human Services | 24,985,148 | ** |
| 93.768 | Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities | Human Services | 628,678 | |
| 93.779 | CMS Research, Demonstrations and Evaluations | Governor | 303,410 | |
| 93.779 | CMS Research, Demonstrations and Evaluations | Human Services | 907,536 | |
| 93.786 | State Pharmaceutical Assistance Programs | Human Services | 2,255,028 | |
| Health Resources & Services Adm | | | | |
| 93.889 | National Bioterrorism Hospital Preparedness Program | Human Services | 4,596,315 | ** |
| 93.913 | Grants to States for Operation of Offices of Rural Health | Human Services | 143,871 | |
| 93.913 | Grants to States for Operation of Offices of Rural Health | Public Safety | 6,666 | |
| 93.917 | HIV Care Formula Grants | Human Services | 1,160,244 | |
| Centers for Disease Control & Prevention | | | | |
| 93.938 | Coop Ag-Sch Hlth Prg/Pvt the Spd of HIV & Oth Imp Hlth Prb | Education | 710,300 | |
| 93.940 | HIV Prevention Activities: Health Department Based | Human Services | 1,410,325 | |
| 93.944 | HIV/AIDS Surveillance | Human Services | 142,299 | |
| 93.945 | Assistance Programs for Chronic Disease Prevention and Control | Human Services | 1,108,630 | |
| Health Resources & Services Adm | | | | |
| 93.952 | Trauma Care Systems Planning & Development | Public Safety | 34,881 | |
| Substance Abuse & Mental Health Service Adm | | | | |
| 93.958 | Block Grants for Community Mental Health Services | Human Services | 735,251 | |
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse | Human Services | 6,491,942 | |
| Centers for Disease Control & Prevention | | | | |
| 93.977 | Prevention Health Svcs: Sexually Transmitted Diseases Control Grants | Human Services | 220,839 | |
| 93.988 | Coop Agrmnt for St Based Diabetes Control Progs & Eval of Surveil. Systems | Human Services | 418,535 | |
| 93.991 | Preventive Health and Health Services Block Grant | Human Services | 976,727 | |
| Health Resources and Services Administration | | | | |
| 93.994 | Maternal and Child Health Services Block Grant to the States | Education | 161,045 | |
| 93.994 | Maternal and Child Health Services Block Grant to the States | Human Services | 3,661,215 | |
| 93.999 | MIS: Implementation of Uniform Alcohol & Drug Abuse Data Collection System | Human Services | 3,965 | |

| Federal Department / Major Sub-Division / Federal Catalog Number | Program Title | State Agency | Expenditures | |
|---|---|---|---|---|
| **Aging Cluster** | | | | |
| Administration on Aging | | | | |
| 93.044 | Spc Prg/Agng-Ttl III, Part B-Grnt for Supt Service & Sen Ctrs | Human Services | 2,041,477 | ** |
| 93.045 | Spc Prg/Agng-Ttl III, Part C-Nutrition Services | Human Services | 2,697,030 | ** |
| 93.053 | Nutrition Services Incentive Program | Human Services | 580,223 | ** |
| **Child Care Cluster** | | | | |
| Administration for Children & Families | | | | |
| 93.575 | Child Care & Development Block Grant | Human Services | 22,042,850 | ** |
| 93.596 | Child Care Mandatory & Match. Funds of Child Care/Dev Fund | Human Services | 8,583,316 | ** |
| **Medicaid Cluster** | | | | |
| Office of the Secretary | | | | |
| 93.775 | State Medicaid Fraud Control Units | Attorney General | 570,579 | ** |
| Centers for Medicare and Medicaid Services | | | | |
| 93.777 | State Survey and Certification of Health Care Providers and Suppliers | Human Services | 1,233,201 | ** |
| 93.778 | Medical Assistance Program (Medicaid) | Attorney General | 104,265 | ** |
| 93.778 | Medical Assistance Program (Medicaid) | Financial Serv | 28,575 | ** |
| 93.778 | Medical Assistance Program (Medicaid) | Human Services | 1,648,744,706 | ** |
| **Total U.S. Department of Health & Human Services Federal Programs** | | | **1,914,172,533** | |
| **Corporation for National & Community Service** | | | | |
| 94.003 | State Commissions | Planning | 136,993 | |
| 94.004 | Learn and Serve America: School and Community Based Programs | Education | 432,662 | |
| 94.006 | AmeriCorps | Labor | 224,743 | |
| 94.006 | AmeriCorps | Planning | 519,209 | |
| 94.007 | Planning and Program Development Grants | Planning | 15,765 | |
| 94.009 | Training and Technical Assistance | Planning | 120,614 | |
| 94.013 | Volunteers in Service to America (VISTA) | Planning | 378,447 | |
| **Total Corporation for National & Community Service Federal Programs** | | | **1,828,433** | |
| **Social Security Administration** | | | | |
| **Disability Insurance/SSI Cluster** | | | | |
| Social Security | | | | |
| 96.001 | Social Security: Disability Insurance | Human Services | 7,824,988 | |
| **Total Social Security Administration Federal Programs** | | | **7,824,988** | |
| **U.S. Department of Homeland Security** | | | | |
| 97.012 | Boating Safety Financial Assistance | Inland Fisheries | 516,889 | |
| 97.036 | Disaster Grants-Public Assistance (Pres. Decl. Disasters) | Corrections | 5,632 | ** |
| 97.036 | Disaster Grants-Public Assistance (Pres. Decl. Disasters) | Defense | 10,530,982 | ** |
| 97.036 | Disaster Grants-Public Assistance (Pres. Decl. Disasters) | Transportation | 1,854,447 | ** |
| 97.039 | Hazard Mitigation Grant | Defense | 197,353 | |
| 97.041 | National Dam Safety Program | Defense | 24,622 | |
| 97.047 | Pre-Disaster Mitigation | Defense | 2,473,844 | |
| 97.052 | Emergency Operations Centers | Defense | 2,700 | |
| 97.053 | Citizen Corps | Defense | 102,959 | |
| 97.053 | Citizen Corps | Planning | 10,320 | |
| 97.070 | MAP Modernization Management Support (MMMS) | Planning | 228,613 | |
| **Homeland Security Cluster** | | | | |
| 97.004 | State Domestic Preparedness Equipment Support Program | Defense | 15,086,155 | ** |
| 97.004 | State Domestic Preparedness Equipment Support Program | Financial Serv | 251,803 | ** |
| 97.004 | State Domestic Preparedness Equipment Support Program | Governor | 491 | ** |
| 97.004 | State Domestic Preparedness Equipment Support Program | Judicial | 245,015 | ** |
| 97.004 | State Domestic Preparedness Equipment Support Program | Agriculture | 158,506 | ** |
| 97.004 | State Domestic Preparedness Equipment Support Program | Environment | 49,216 | ** |
| 97.004 | State Domestic Preparedness Equipment Support Program | Marine Resource | 1,290 | ** |

**STATE OF MAINE**
**Schedule of Expenditures of Federal Awards**
**For the Year Ended June 30, 2006**

| **Federal Department** Major Sub-Division Federal Catalog Number | Program Title | State Agency | Expenditures | |
|---|---|---|---|---|
| 97.004 | State Domestic Preparedness Equipment Support Program | Public Safety | 1,018,315 | ** |
| 97.067 | Homeland Security Grant Program | Defense | 3,296,957 | ** |
| 97.067 | Homeland Security Grant Program | Inland Fisheries | 28,804 | ** |
| **Total U.S. Department of Homeland Security Federal Programs** | | | **36,084,913** | |
| **Total State Expenditures of Federal Awards** | | | **2,883,987,234** | |

**State of Maine**
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2006

Legend of State Agency Abbreviations

| Abbreviation | State Agency Name |
|---|---|
| Agriculture | Department of Agriculture |
| Arts | Maine Arts Commission |
| Attorney General | Department of the Attorney General |
| Conservation | Department of Conservation |
| Corrections | Department of Corrections |
| Defense | Department of Defense, Veterans and Emergency Management |
| Economic Devel | Department of Economic and Community Development |
| Education | Department of Education |
| Environment | Department of Environmental Protection |
| Financial Serv | Department of Administrative and Financial Services |
| Governor | Governor's Office |
| Historic Preserve | Maine Historical Preservation Commission |
| Human Rights | Maine Human Rights Commission |
| Human Services | Department of Health and Human Services |
| Inland Fisheries | Department of Inland Fisheries and Wildlife |
| Judicial | Judicial Branch |
| Labor | Department of Labor |
| Library | Maine State Library |
| Marine Resource | Department of Marine Resources |
| Museum | Maine State Museum |
| Planning | State Planning Office |
| Professional Reg | Department of Professional and Financial Regulation |
| Public Safety | Department of Public Safety |
| Public Utilities | Maine Public Utilities Commission |
| Salmon Comm | Atlantic Sea Run Salmon Commission |
| State | Department of Secretary of State |
| Transportation | Department of Transportation |
| Treasurer | Office of the State Treasurer |

# STATE OF MAINE
## Notes to the Schedule of Expenditures of Federal Awards
## For the Year Ended June 30, 2006

**1. Purpose of the Schedule**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) is a supplementary schedule to the State's basic financial statements (BFS) and is presented for purposes of additional analysis. Total expenditures for each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance (CFDA) are shown. Federal financial assistance programs, which have not been assigned a CFDA number, have been identified using the two-digit federal agency number and the suffix *999*. Federal award amounts aggregated by federal agency; direct and pass-through amounts are reported by primary recipient to prevent overstatement of expenditures of federal awards. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations requires the Schedule.

**2. Significant Accounting Policies**

A. *Reporting Entity* – The reporting entity is defined in Note 1 to the BFS. The accompanying Schedule includes all federal financial assistance programs of the State of Maine reporting entity for the fiscal year ended June 30, 2006, with the exception of the discrete component units identified in Note 1 to the BFS. The discrete component units engaged other auditors.

B. *Basis of Presentation* – The information in the accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133.

1) Federal Awards – Pursuant to the Single Audit Act Amendments of 1996 (Public Law 104-156) and OMB Circular A-133, federal award is defined as federal financial assistance and federal cost-reimbursement contracts that non-federal agencies receive directly or indirectly from federal agencies or pass-through entities. Federal financial assistance is defined as assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations and other assistance. Accordingly, non-monetary federal assistance, including food stamps, food stamp EBT cards and food commodities, is included in federal financial assistance and, therefore, is reported on the Schedule of Expenditures of Federal Awards. Federal financial assistance does not include direct federal cash assistance to individuals.

2) Type A and Type B Programs – The Single Audit Act Amendments of 1996 and OMB Circular A-133 established the levels of expenditures to be used in defining Type A and Type B federal financial assistance programs. Type A programs for the State of Maine are those programs that equal or exceed \$8.65 million in expenditures, distributions, or issuances for the year ended June 30, 2006. Programs audited as major programs are marked with asterisks in the accompanying schedule.

C. *Basis of Accounting* – The information presented in the Schedule of Expenditures of Federal Awards is presented primarily on the modified accrual basis of accounting, which is consistent with the fund financial statements. Under this basis, expenditures of federal awards are recorded in the accounting period in which the fund liability is incurred.

**3. Program Information**

A. Department of Education - Food Donation Program (CFDA 10.550): The reported total of federal financial assistance represents the $3,452,991 value of food commodities distributed to various schools, institutions, and other qualifying entities. Inventory on hand at June 30, 2006 was $2,485.

B. Department of Corrections – Food Donation Program (CFDA 10.550): The reported total of federal financial assistance represents the $14,172 value of food commodities distributed to various correctional facilities. There was no inventory on hand at June 30, 2006.

C. Department of Health and Human Services – Food Stamps (CFDA 10.551): The food stamp program is administered through Electronic Benefit cards that provide each eligible client with an authorized limit of service (specific food products). The reported total federal financial assistance of $167,895,978 consists of actual disbursements for client purchases of authorized food products via the EBT card program.

D. Department of Agriculture - Emergency Food Assistance Cluster - The reported total of federal financial assistance includes administrative costs of $280,381 (CFDA 10.568) and commodities of $1,447,837 (CFDA 10.569). The value of inventory at June 30, 2006 was $168,074.

E. Department of Defense, Veterans and Emergency Management – National Guard Military Operations & Maintenance Projects (CFDA 12.401), and Readiness Sustainment Maintenance Center Projects (CFDA 12.999): Amounts recorded as expenditures includes $2,121,323, and $4,989,970 of in-kind expenditures, respectively.

F. General Service Administration – Donation of Federal Surplus Property (CFDA 39.003): During fiscal year 2006, the state received $467,929 worth of federal property and disbursed $478,577. The value of inventory at June 30, 2006 was $429,707.

G. Department of Health and Human Services – Immunization Grants (CFDA 93.268): The reported total of federal financial assistance represents $3,820,429 for administrative costs and $8,026,263 for the value of vaccines disbursed. The value of inventory as of June 30, 2006 was $1,018,073.

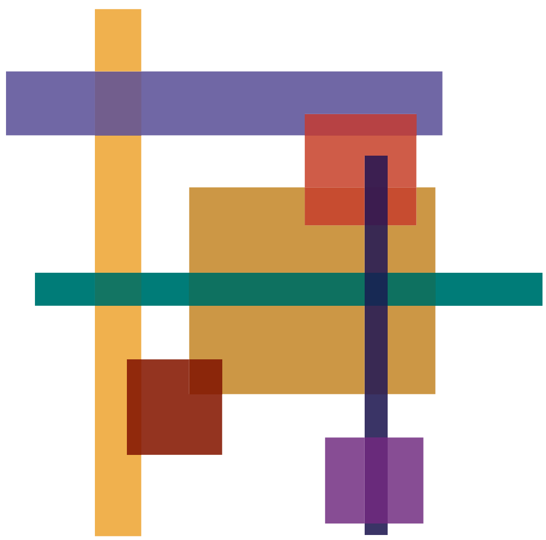
**4. Unemployment Insurance Program**

The expenditures reported on the Schedule for Unemployment Insurance (CFDA 17.225) include:

| | |
|---|---|
| State Funds | $103,867,000 |
| Federal Funds | 16,687,135 |
| Total | $120,554,135 |

# STATE OF MAINE
# SCHEDULE OF FINDINGS AND QUESTIONED COSTS
# FOR THE YEAR ENDED JUNE 30, 2006

## Section I – Summary of Auditor's Results



## *Section I – Summary of Auditor's Results*

***Financial Statements:***

| | | |
|---|---|---|
| Type of auditor's report issued: | <u>Unqualified</u> | |
| Internal control over financial reporting: | | |
| • Material weaknesses identified? | YES ☑ | NO ☐ |
| • Reportable conditions identified that were not considered to be material weaknesses? | YES ☑ | NO ☐ |
| • Noncompliance material to financial statements noted? | YES ☐ | NO ☑ |

***Federal Awards:***

| | | |
|---|---|---|
| Internal control over major programs: | | |
| • Material weaknesses identified? | YES ☑ | NO ☐ |
| • Reportable conditions identified that were not considered to be material weaknesses? | YES ☑ | NO ☐ |

Type of auditor's report issued on compliance for major programs:
<u>Unqualified</u> for all major programs except for Medicaid Cluster, State Children's Insurance Program, Social Services Block Grant, and National Bioterrorism Hospital Preparedness Program which are <u>qualified</u>.

| | | |
|---|---|---|
| Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)? | YES ☑ | NO ☐ |

***Identification of Major Programs:***

| **CFDA #** | **Name of Federal Program or Cluster** |
|---|---|
| <u>Food Stamp Cluster</u> | |
| 10.551 | Food Stamps |
| 10.561 | State Administrative Matching Grants for Food Stamp Program |
| <u>WIA Cluster (Workforce Investment Act)</u> | |
| 17.258 | WIA Adult Program |
| 17.259 | WIA Youth Activities |
| 17.260 | WIA Dislocated Workers |
| <u>Highway Planning and Construction Cluster</u> | |
| 20.205 | Highway Planning and Construction |
| <u>Federal Transit Cluster</u> | |
| 20.500 | Federal Transit — Capital Investment Grants |
| 20.507 | Federal Transit — Formula Grants |
| <u>Special Education Cluster</u> | |
| 84.027 | Special Education — Grants to States |
| 84.173 | Special Education — Preschool Grants |

## *Section I – Summary of Auditor's Results*

***Identification of Major Programs (continued)***

Aging Cluster

| | |
|---|---|
| 93.044 | Special Programs for the Aging — Title III, Part B--Grants for Supportive Services and Senior Centers |
| 93.045 | Special Programs for the Aging — Title III, Part C--Nutrition Services |
| 93.053 | Nutrition Services Incentive Program |

CCDF Cluster (Child Care and Development Fund)

| | |
|---|---|
| 93.575 | Child Care and Development Block Grant |
| 93.596 | Child Care Mandatory & Matching Funds — Child Care & Develop. Fund |

Medicaid Cluster

| | |
|---|---|
| 93.775 | State Medicaid Fraud Control Units |
| 93.777 | State Survey and Certification of Health Care Providers and Suppliers |
| 93.778 | Medical Assistance Program (Medicaid) |

Homeland Security Cluster

| | |
|---|---|
| 97.067 | Homeland Security Grant Program |
| 97.004 | State Domestic Preparedness Equipment Support Program |

Other Programs

| | |
|---|---|
| 10.557 | Special Supplemental Nutrition Program for Women, Infants and Children |
| 10.558 | Child and Adult Care Food Program |
| 12.401 | National Guard Military Operations and Maintenance Projects |
| 17.225 | Unemployment Insurance |
| 84.010 | Title I Grants to Local Educational Agencies |
| 84.126 | Rehabilitation Services — Vocational Rehabilitation Grants to States |
| 84.287 | Twenty-First Century Community Learning Centers |
| 93.268 | Immunization Grants |
| 93.283 | CDC and Prevention: Investigations And Technical Assistance |
| 93.558 | Temporary Assistance for Needy Families |
| 93.563 | Child Support Enforcement |
| 93.658 | Foster Care — Title IV-E |
| 93.659 | Adoption Assistance |
| 93.667 | Social Services Block Grant |
| 93.767 | State Children's Insurance Program |
| 93.889 | National Bioterrorism Hospital Preparedness Program |
| 97.036 | Disaster Grants — Public Assistance |

Dollar threshold used to distinguish between type A and type B programs: $8,651,962

Does the auditee qualify as low risk? YES ☐ NO ☑

## *Section I – Summary of Auditor's Results*

***Summary of Questioned Costs:***

| Federal Grantor/<br>State Agency/Bureau | CFDA No. | Federal Program | Questioned Costs | Finding No. |
|---|---|---|---|---|
| **U.S. Department of Agriculture**<br><br>• Department of Administrative and Financial Services: Health and Human Services Service Center | 10.551<br>10.561 | Food Stamp Cluster | $138,265<br>Undeterminable<br>$674,000<br>Undeterminable<br>$17,149 | 06-06<br>06-07<br>06-09<br>06-10<br>06-12 |
| **U.S. Department of Transportation**<br><br>• Department of Transportation: Finance and Administration | 20.205 | Highway Planning and Construction Cluster | $49,359<br>$378 | 06-19<br>06-22 |
| **U.S. Department of Health and Human Services**<br><br>• Department of Health and Human Services: Office of Elder Services | 93.044<br>93.045<br>93.053 | Aging Cluster | Undeterminable | 06-31 |
| **U.S. Department of Health and Human Services**<br><br>• Department of Health and Human Services: Maine Center for Disease Control and Prevention | 93.283 | CDC and Prevention: Investigations and Technical Assistance | Undeterminable | 06-40 |

## *Section I – Summary of Auditor's Results*

***Summary of Questioned Costs (continued):***

| Federal Grantor/ State Agency | CFDA No. | Federal Program | Questioned Costs | Finding No. |
|---|---|---|---|---|
| **U.S. Department of Health and Human Services**<br>• Department of Administrative and Financial Services: Health and Human Services Service Center | 93.558 | Temporary Assistance for Needy Families | Undeterminable<br>$929,000 | 06-07<br>06-42 |
| **U.S. Department of Health and Human Services**<br>• Department of Administrative and Financial Services: Health and Human Services Service Center | 93.563 | Child Support Enforcement | Undeterminable<br>Undeterminable | 06-07<br>06-10 |
| **U.S. Department of Health and Human Services**<br>• Department of Administrative and Financial Services: Health and Human Services Service Center | 93.575<br>93.596 | CCDF Cluster (Child Care Development Fund) | $880,301 | 06-08 |
| **U.S. Department of Health and Human Services**<br>• Department of Administrative and Financial Services: Health and Human Services Service Center | 93.658 | Foster Care Title IV-E | Undeterminable<br>Undeterminable | 06-07<br>06-10 |

## *Section I – Summary of Auditor's Results*

***Summary of Questioned Costs (continued):***

| Federal Grantor/ State Agency | CFDA No. | Federal Program | Questioned Costs | Finding No. |
|---|---|---|---|---|
| **U.S. Department of Health and Human Services** | | | | |
| • Department of Administrative and Financial Services: Health and Human Services Service Center | 93.659 | Adoption Assistance | Undeterminable<br>Undeterminable<br>$22,602 | 06-07<br>06-10<br>06-53 |
| • Department of Health and Human Services: Office of Child and Family Services | 93.659 | Adoption Assistance | $62,325 | 06-54 |
| **U.S. Department of Health and Human Services** | | | | |
| • Department of Administrative and Financial Services: Health and Human Services Service Center | 93.667 | Social Services Block Grant | $1,249,000 | 06-08 |

## *Section I – Summary of Auditor's Results*

***Summary of Questioned Costs (continued):***

| Federal Grantor/ State Agency | CFDA No. | Federal Program | Questioned Costs | Finding No. |
|---|---|---|---|---|
| **U.S. Department of Health and Human Services** | | | | |
| • Department of Administrative and Financial Services, Health and Human Services Service Center | 93.767 | State Children's Insurance Program | $4,819 | 06-66 |
| • Department of Health and Human Services: Office of Integrated Access and Support, Office of Maine Care Services, Office of Information Technology | 93.767 | State Children's Insurance Program | Undeterminable | 06-07 |
| **U.S. Department of Health and Human Services** | | | | |
| • Department of Administrative and Financial Services, Health and Human Services Service Center | 93.775<br>93.777<br>93.778 | Medicaid Cluster | Undeterminable<br>Undeterminable | 06-07<br>06-10 |
| • Department of Health and Human Services: Adults with Cognitive & Physical Disability Services | 93.775<br>93.777<br>93.778 | Medicaid Cluster | $130,912<br>$12,173<br>Undeterminable<br>Undeterminable<br>Undeterminable | 06-57<br>06-58<br>06-59<br>06-62<br>06-63 |

## *Section I – Summary of Auditor's Results*

***Summary of Questioned Costs (continued):***

| Federal Grantor/ State Agency | CFDA No. | Federal Program | Questioned Costs | Finding No. |
|---|---|---|---|---|
| **U.S. Department of Health and Human Services** | | | | |
| • Department of Health and Human Services: Office of Child and Family Services; Department of Administrative and Financial Services: Health and Human Services Service Center | 93.775<br>93.777<br>93.778 | Medicaid Cluster | $27,870 | 06-60 |
| • Department of Health and Human Services: Office of Integrated Access and Support, Office of MaineCare Services | 93.775<br>93.777<br>93.778 | Medicaid Cluster | $112 | 06-61 |
| • Department of Health and Human Services: Office of Integrated Access and Support, Office of MaineCare Services, Office of Information Technology | 93.775<br>93.777<br>93.778 | Medicaid Cluster | $292 | 06-66 |
| • Department of Health and Human Services: Office of MaineCare Services | 93.775<br>93.777<br>93.778 | Medicaid Cluster | $8<br>$117<br>$23<br>$11 | 06-64<br>06-67<br>06-68<br>06-85 |

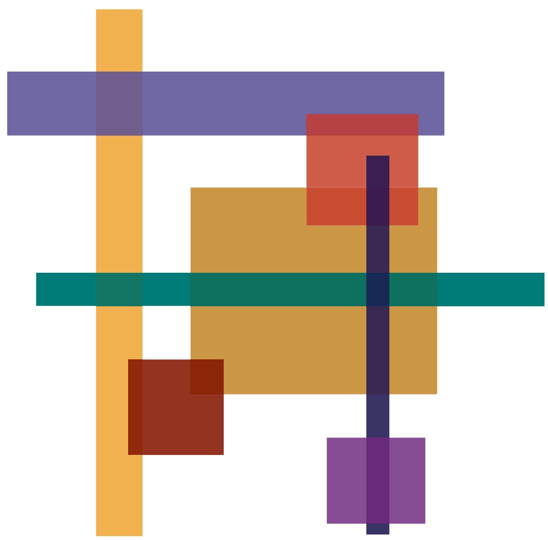
## *Section I – Summary of Auditor's Results*

***Summary of Questioned Costs (continued):***

| Federal Grantor/ State Agency | CFDA No. | Federal Program | Questioned Costs | Finding No. |
|---|---|---|---|---|
| **U.S. Department of Health and Human Services** | | | | |
| • Department of Health and Human Services: Maine Center for Disease Control and Prevention | 93.889 | National Bioterrorism Hospital Preparedness Program | Undeterminable | 06-86 |
| • Department of Administrative and Financial Services: Health and Human Services Service Center | 93.889 | National Bioterrorism Hospital Preparedness Program | $1,901,456 | 06-88 |
| **U.S. Department of Homeland Security** | | | | |
| • Department of Defense, Veterans and Emergency Services: Maine Emergency Management Agency | 97.004<br>97.067 | Homeland Security Cluster | $671,000<br>$121,303 | 06-93<br>06-94 |
| **U.S. Department of Health and Human Services** | | | | |
| • Department of Administrative and Services: Office of Information Technology | Various | Various | $15,800,000 | 06-101 |
| | | Total Questioned Costs | **$22,692,475** | |

# STATE OF MAINE
# SCHEDULE OF FINDINGS AND QUESTIONED COSTS
# FOR THE YEAR ENDED JUNE 30, 2006

## Section II – Financial Statement Findings



# FINANCIAL STATEMENT FINDINGS

**(06-01)**

**Finding Title:** Inadequate internal controls over accounting for receivables
**Prior Year Finding:** No
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Health and Human Services Service Center; Office of the State Controller

**Finding Type:** Internal control

**Criteria:** AICPA Audit and Accounting Guide - Audit of State and Local Governments (With Conforming Changes as of May 1, 2005), AAG-SLV 6.14

**Condition:** The Department does not have procedures in place to properly report accounts receivable net of uncollectible or doubtful accounts. We found the following:

- Procedures were not in place to identify uncollectible accounts
- The Department does not maintain an aging schedule of receivables
- Procedures were not in place to attempt to collect receivables past due
- Subsidiary records were not reconciled to the State accounting system

**Context:** An audit adjustment of $31.3 million was necessary to reflect the related uncollectible/doubtful accounts and to ensure that the State's financial statements were reasonably stated.

**Cause:**

- Staff turnover
- Necessary accounting entries were not made in the State's accounting system
- Collectibility of the accounts was not analyzed
- Reconciliations were not performed

**Effect:** The accounts receivable balance was materially overstated prior to the audit adjustment.

**Recommendation:** We recommend that the Department develop procedures to:

- Reconcile the account
- Identify and write off uncollectible accounts
- Maintain an aging schedule of receivables
- Attempt to collect outstanding balances

**Management Response/Corrective Action Plan:** *The Department of Administrative and Financial Services agrees with the finding:*

*Significant steps have been taken over the past year to eliminate or address the recommendations outlined in the audit finding. Below are specific responses:*

# FINANCIAL STATEMENT FINDINGS

**RECONCILE THE ACCOUNT**

***Response**: As of June 30, 2007 and on a regular scheduled basis, the Accounts Receivable from providers for MaineCare services are reconciled between the subsidiary ledger and the general ledger maintained by the Controller's Office.*

**IDENTIFY AND WRITE OFF UNCOLLECTIBLE ACCOUNTS**

***Response**: Working with the Controller's Office, the Department has established an allowance for uncollectible accounts for the year ending June 30, 2007. In addition, the Department is working with the Attorney General's Office to identify those providers who are uncollectible.*

**MAINTAIN AN AGING SCHEDULE OF RECEIVABLES**

***Response**: As part of the reconciliation, an aging was developed for all providers allowing for an analysis of accounts by last payment and date of original receivable.*

**ATTEMPT TO COLLECT OUTSTANDING BALANCES**

***Response**: With the implementation of AdvantageME the department is developing a process to utilize the accounts receivable functionality to send out collection letters and statements of accounts. This process will assist in the collection of outstanding receivables identified by provider. We anticipate additional collection needs and are exploring options to further improve the effectiveness and success of collection efforts.*

***Contact:** Rick Violette, Department of Administrative and Financial Services (DAFS) - Department of Health and Human Services (DHHS) Service Center –*
*Management Analyst, 287-4033*

*The Office of the State Controller is working closely with the Department of Health and Human Services to address the issues noted in the finding, and we fully expect that the internal control deficiencies will be corrected prior to the compilation of our SFY 2008 financial statements. The Office of the State Controller plans to provide ongoing monitoring of the Medicaid accounts receivable activity to ensure effective internal controls continue to be maintained and operating effectively and balances are properly reported.*

*Additionally, the financial reporting division has implemented procedures to review year-ending accounts receivable and aging activity to ensure accounts receivable balances reported in the State's financial statements are materially correct.*

***Contact:** Ruth Quirion, DAFS - Office of the State Controller (OSC), Director of Financial Reporting and Internal Audit, 626-8493*

# FINANCIAL STATEMENT FINDINGS

**(06-02)**

**Finding Title:** Inadequate controls over financial reporting of capital assets
**Prior Year Finding:** 05-01
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Office of the State Controller (OSC)

**Finding Type:** Internal control

**Criteria:** State Administrative and Accounting Manual §30 and GASB 34

**Conditions:** Controls were not in place to ensure that capital assets were properly reported. We noted the following:

- OSC did not sufficiently monitor agencies for compliance with the State's fixed assets internal control policies in the areas of valuation of assets, performing physical inventories and the timely recording of additions and deletions of capital assets. This condition has been left uncorrected since fiscal year 2002.
- Controls were not in place to ensure accurate financial reporting of all capital assets. Currently, the State is utilizing an Excel spreadsheet to report capital asset balances, current year additions, and current year deletions. This spreadsheet allows for a significant margin of error to exist. It is complex and allows for assets to be easily added, deleted, and modified without the ability to track those changes. Errors such as the following occurred:
    - Items that were thought to be transferred from construction in progress (CIP) to buildings remained unknowingly in CIP
    - Assets were eliminated from the spreadsheet but were not disposed of
    - Incorrect categorization of asset additions and deletions caused the detail required in the capital asset note to be misstated
    - Accumulated depreciation was removed on assets that still existed

  This condition has been left uncorrected since fiscal year 2002.
- Controls were not in place to ensure that accumulated depreciation is complete and that the total reflects all assets being depreciated. Currently, the State is recalculating the entire accumulated depreciation amount on a yearly basis. Due to the large number of assets being depreciated, there is significant room for error. Certain assets were inadvertently removed from the depreciation schedule therefore incorrectly eliminating the ending accumulated depreciation associated with them. This condition also caused depreciation expense to be overstated as a result of a manual adjustment by the OSC when attempting to reconcile accumulated depreciation.

**Context:** Audit adjustments totaling $49 million were necessary to ensure the financial statements and notes related to capital assets were reasonably stated.

**Causes:**

- Lack of sufficient monitoring
- Lack of training
- Lack of sufficient procedures

- Lack of appropriate capital asset financial reporting

**Effect:** The State's draft financial statements and related notes regarding capital assets were significantly misstated prior to the audit adjustment.

**Recommendations:** We recommend that:
- OSC needs to implement a more accurate and accountable way of financially reporting capital assets that would be interfaced with the State's accounting system to track additions and deletions using the information already entered into the accounting system. (It was noted during our audit that the new AdvantageME software that is expected to be implemented in fiscal year 2008 should address this issue.)
- OSC should monitor and provide clear and specific guidance to agencies on implementing fixed asset internal control policies.
- Each agency should follow established internal control policies included in the fixed asset manual.
- An analysis of recorded amounts in the financial records of the State and the related amounts in the financial statements should be analyzed for reasonableness prior to the completion of the financial statement draft. The current procedures used to complete the related financial statement note should be reevaluated.

**Management Response/Corrective Action Plan:** *The Department of Administrative and Financial Services agrees with this finding.*

*The State of Maine reports more than $3 billion of capital assets, which are comprised of tens of thousands of individual asset records. The vast majority of these transactions are reported correctly.*

*Most of the conditions cited were due to the use of a spreadsheet. A new database is being created to track assets, depreciation, additions, and deletions. The number of assets and volume of transactions is more conducive to a database format. This will be in place for FY07 reporting.*

*During the past two years, we have been working with agencies and the Service Centers on using the new statewide accounting system, AdvantageME, to properly record capital-asset related transactions. AdvantageME provides significantly more functionality for recording, tracking, and reporting fixed assets, which will improve our ability to produce accurate financial statements and notes.*

*Advantage was placed into operation on July 1, 2007. Additionally, a team of OSC staff members is reviewing statewide fixed asset policies and procedures in an effort to update, clarify, and simplify fixed asset polices, identify and address internal control deficiencies, and develop an ongoing fixed asset training program.*

*The Controller's Office will continue to look for ways to improve communication with agencies, provide additional training, and improve the financial reporting process.*

***Contact:*** *Brenda Palmer, DAFS – OSC, Financial Management Coordinator, 626-8437*

# FINANCIAL STATEMENT FINDINGS

**(06-03)**

**Finding Title:** Inaccurate lottery receivable balance
**Prior Year Finding:** 05-02
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Division of Financial and Personnel Services (DFPS)

**Finding Type:** Internal control

**Condition:** DFPS did not adequately reconcile the State's accounts receivable related to lottery agents. The State's on-line and instant lottery games service provider could not produce the necessary reports to enable DFPS to prepare this reconciliation. As a result, the State's accounts receivable balance was overstated by $2.1 million at year-end and remained undetected. In addition, fiscal year 2006 lottery sales revenue was overstated by approximately $800,000.

**Context:** This is a systemic problem.

**Cause:** Changes and upgrades to the service provider's automated system resulted in inaccurate reports being generated and relied upon by the State. This was discovered during fiscal year 2007 and after the State's audited fiscal year 2006 financial statements were issued.

**Effect:**

- State's financial statements are misstated
- The State does not have an accurate account of the actual receivable from the lottery agents

**Recommendation:** We recommend that the Department continue to work with the lottery service provider to ensure that future reports utilized for financial reporting by the State are complete and accurate. We also recommend that the Department ensure that variances detected during future reconciliations are resolved on a timelier basis.

**Management Response/Corrective Action Plan:** *The Department of Administrative and Financial Services agrees with this finding.*

*The lottery service provider has identified and resolved a reporting function which neglected to recognize credit for returned tickets which has caused lottery revenues to be overstated. The Department will continue to work with the lottery service provider to ensure that reports are accurate and verifiable.*

***Contact:** Denise Garland, DAFS Service Center Director, 624-7413*

# FINANCIAL STATEMENT FINDINGS

**(06-04)**

**Finding Title:** Revenue incorrectly recorded as transfers
**Prior Year Finding:** No
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Security and Employment Service Center; Office of State Controller

**Finding Type:** Internal control

**Criteria:** Governmental Accounting Standards Board (GASB) Statement 34, paragraph 112

**Condition:** The Department incorrectly reported $18.3 million in revenue as transfers on the State's draft financial statements. A year-end revenue accrual related to the Employment Security Fund was incorrectly coded as a transfer in the State accounting system, resulting in this incorrect categorization.

**Context:** An audit adjustment was necessary to properly reflect this activity on the State's financial statements.

**Cause:** Department personnel incorrectly coding transactions in the State's accounting system

**Effect:** Revenues and transfers on the State's financial statements were materially misstated prior to the audit adjustment.

**Recommendation:** We recommend that the Department ensure that transactions are properly coded within the State's accounting system so that they may be correctly categorized on the State's financial statements.

**Management Response/Corrective Action Plan:** *We concur with the finding.*

*We will ensure that the Trust Fund Accountant has received adequate training in the preparation of these transactions for the trust fund. We are performing a detail review of all of the posting to the trust fund account for year ending June 30, 2007, and scheduling quarterly reviews thereafter.*

***Contact:*** *Robert Schenberger, DAFS, Securities and Employment Service Center (SESC) Managing Staff Accountant, 623-6723*

*The Office of the State Controller is working with the Securities and Employment Service Center (SESC) to resolve the revenue coding issues. The SESC uses a transfer code to track a certain category of cash receipts that are collected by Maine Revenue Services. The account should have a zero balance when cleared properly. If a balance exists at year end, the OSC reclassifies the amount from the transfer account to be correctly reported in the financial statements. The SESC provides information for the GAAP accruals to the OSC for proper recording in the State's financial statements. The $18.3 million dollar accrual identified in the finding was listed on the SESC accrual sheet as an accrual for the transfer account. The OSC did not post the*

*accrual in error. The OSC has implemented a review process in SFY 2008 to ensure that all accruals provided by the agencies are recorded and posted to the appropriate accounts.*

***Contact:*** *Brenda Palmer, DAFS – OSC, Financial Management Coordinator, 626-8437*

**(06-05)**

**Finding Title:** Inadequate internal controls over capital assets valuation
**Prior Year Finding:** No
**State Department:** Department of Transportation (DOT)
**Bureau:** Finance and Administration

**Finding Type:** Financial

**Criteria:** State Administrative and Accounting Manual – Valuing, Capitalizing and Depreciating Assets, §30.20

**Condition:** The Department did not have documentation to support valuation of $52 million of capital assets initially included in an Internal Service Fund in the draft financial statements.

**Context:** This was an isolated instance associated with the establishment of a new internal service fund. These assets were not included in the financial statements prior to establishment of the fund because they did not meet the capitalization threshold. Ultimately it was determined that this fund was not operational during the fiscal year so the fund was eliminated from the financial statements.

**Cause:** Lack of knowledge of State capital assets accounting policies and procedures.

**Effect:** Audit adjustments were necessary to prevent the financial statements from being materially misstated.

**Recommendation:** We recommend that the Department follow the policies and procedures outlined in the State Administrative and Accounting Manual.

**Management Response/Corrective Action Plan:** *The Department transferred all facilities to the Transportation Facilities Internal Service Fund at the value that had been assigned to them in the State's fixed asset system.*

*The Department will revalue all capital assets transferred to the Transportation Facilities Internal Service Fund, in agreement with the Office of the State Controller and the Department of Audit, by projecting the replacement cost of each facility based on the square footage and construction type. That value will then be reduced by a published CPI factor back to the original date of acquisition or construction (anticipated implementation date December 2007).*

*In the future, each facility acquired or constructed will be assigned a project identification number (PIN) and all documentation will be electronically attached to that PIN.*

**Contact:** *Tim Varney, Department of Transportation (DOT) – Capital Resource Management, Financial Analyst, 624-3111*

# STATE OF MAINE
# SCHEDULE OF FINDINGS AND QUESTIONED COSTS
# FOR THE YEAR ENDED JUNE 30, 2006

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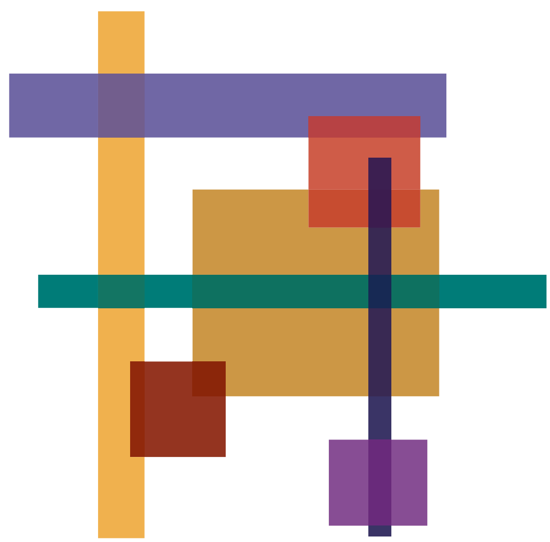

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| 06-95 | Inaccurate SEFA reporting | DVEM | E-202 |
| 06-96 | Incorrect financial reports | DVEM | E-203 |
| 06-97 | Insufficient subrecipient monitoring | DVEM | E-204 |
| 06-101* | Excess working capital | DAFS | E-211 |
| | | | |

* Finding involves multiple programs.

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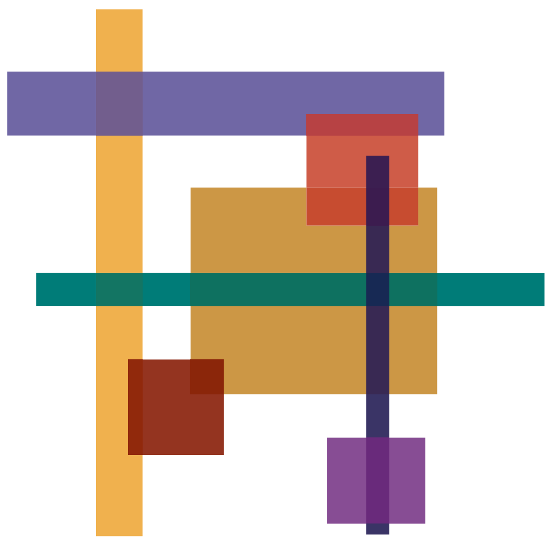
| | | | |

**Legend of State Agency Abbreviations:**

| | |
|---|---|
| DAFS | Department of Administrative and Financial Services |
| MDOE | Maine Department of Education |
| MDOL | Maine Department of Labor |
| MDOT | Maine Department of Transportation |
| DHHS | Department of Health and Human Services |
| DVEM | Defense, Veterans, and Emergency Management |

* Finding involves multiple programs.



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| **Department of Administrative and Financial Services** | | | | | | | | | | | | | | | | |
| 06-06 | Food Stamp Cluster | ✓ | ✓ | | | | | | | | | | ✓ | | | E-37 |
| 06-07 | Multiple programs | | ✓ | | | | | | | | | | | | | E-38 |
| 06-08 | Multiple programs | | ✓ | | | | | | | | | | | | | E-40 |
| 06-09 | Food Stamp Cluster | | | ✓ | | | | | | | | | | | | E-42 |
| 06-10 | Multiple programs | | | | | | | ✓ | | | | | | | | E-43 |
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| 06-18 | Workforce Investment Act | | | | | | | | | | | | | ✓ | | E-46 |
| 06-23 | Multiple programs | | | | | | | | | | | | | ✓ | | E-64 |
| 06-24 | Special Education Cluster | | | | | | | | | ✓ | | | | | | E-66 |
| 06-27 | Rehabilitation Services | | | ✓ | | | | | | | | | | | | E-71 |
| 06-30 | Rehabilitation Services | | | | | | | | | | | | ✓ | | | E-77 |
| 06-32 | Aging Cluster | | | ✓ | | | | | | | | | | | | E-82 |
| 06-36 | Immunization Grants | | | | | | | | | | | | ✓ | | | E-88 |
| 06-37 | Multiple programs | | | | | | | | | | | | ✓ | | | E-89 |
| 06-42 | TANF | | | ✓ | | | | | | | | | | | | E-97 |
| 06-43 | Multiple programs | | | ✓ | | | | | | | | | | | | E-98 |
| 06-45 | TANF | | | | | | | | | | | | ✓ | | | E-101 |
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| 06-51 | Foster Care/Adoption Assist. | | | ✓ | | | | | | | | | | | | E-111 |
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| 06-55 | Social Services Block Grant | | | ✓ | | | | | | | | | | | | E-118 |
| 06-56 | Children's Insurance -SCHIP | | | | | | | | | | | | ✓ | | | E-120 |
| 06-60* | Medicaid Cluster | ✓ | ✓ | | | | | | | | | | | | | E-128 |
| 06-65* | Medicaid Cluster | ✓ | ✓ | | | ✓ | | | | | | | | | | E-138 |
| 06-66* | Medicaid Cluster/SCHIP | ✓ | ✓ | | | ✓ | | | | | | | ✓ | | | E-141 |
| 06-71* | Medicaid Cluster/SCHIP | | | | | ✓ | | | | | | | | | | E-152 |
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* Finding also attributable to the Department of Health and Human Services
** Finding also attributable to the Department of Administrative and Financial Services

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| 06-83* | Medicaid Cluster | | | | | | | | | | | | | | ✓ | E-182 |
| 06-87 | Bioterrorism Hospital Prep. | | | ✓ | | | | | | | | | | | | E-191 |
| 06-88 | Bioterrorism Hospital Prep. | | | | | | | | ✓ | | | | | | | E-192 |
| 06-89 | Bioterrorism Hospital Prep. | | | | | | | | | | | | ✓ | | | E-193 |
| 06-99 | Multiple programs | ✓ | | ✓ | | | | | | | | | ✓ | | | E-208 |
| 06-100 | Multiple programs | | | | | | | | | | | | ✓ | | | E-210 |
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| 06-95 | Homeland Security Cluster | | | | | | | | | | | | ✓ | | | E-202 |
| 06-96 | Homeland Security Cluster | | | | | | | | | | | | ✓ | | | E-203 |
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| 06-11 | Food Stamp Cluster | | | | | | | | | | | | ✓ | | | E-45 |
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| 06-33 | Aging Cluster | | | | | | | | | | | | ✓ | | | E-83 |

* Finding also attributable to the Department of Health and Human Services
** Finding also attributable to the Department of Administrative and Financial Services

| Finding # | Program Name | Activities Allowed | Allowable Costs | Cash Management | Davis-Bacon Act | Eligibility | Equipment and Real Property Management | Matching, Level of Effort, Earmarking | Period of Availability | Procurement and Suspension and Debarment | Program Income | Real Property Acquisition | Reporting | Subrecipient Monitoring | Special Tests | Page |
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| 06-38 | Immunization Grants | | | | | | | | | | | | | | ✓ | E-91 |
| 06-39 | Immunization Grants | | | | | | | | | | | | | | ✓ | E-92 |
| 06-40 | Investigations & Tech Assist. | ✓ | | | | | | | | | | | | | | E-94 |
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| 06-48 | Child Support Enforcement | | | | | | | | | | | | | | ✓ | E-106 |
| 06-50 | Foster Care/Adoption Assist. | | ✓ | ✓ | | | | ✓ | | | | | | | | E-110 |
| 06-52 | Foster Care/Adoption Assist. | | | | | | | | | ✓ | | | | | | E-113 |
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| 06-57 | Medicaid Cluster | ✓ | | | | | | | | | | | | | | E-122 |
| 06-58 | Medicaid Cluster | ✓ | | | | | | | | | | | | | | E-123 |
| 06-59 | Medicaid Cluster | ✓ | | | | | | | | | | | | | | E-126 |
| 06-60** | Medicaid Cluster | ✓ | ✓ | | | | | | | | | | | | | E-128 |
| 06-61 | Medicaid Cluster | ✓ | | | | ✓ | | | | | | | | | | E-131 |
| 06-62 | Medicaid Cluster | ✓ | | | | | | | | | | | | | ✓ | E-132 |
| 06-63 | Medicaid Cluster | ✓ | | | | | | | | | | | | | ✓ | E-134 |
| 06-64 | Medicaid Cluster | ✓ | | | | | | | | | | | | | | E-136 |
| 06-65** | Medicaid Cluster | ✓ | ✓ | | | ✓ | | | | | | | | | | E-138 |
| 06-66** | Medicaid Cluster/SCHIP | ✓ | ✓ | | | ✓ | | | | | | | ✓ | | | E-141 |
| 06-67 | Medicaid Cluster | | ✓ | | | | | | | | | | | | | E-145 |
| 06-68 | Medicaid Cluster | | ✓ | | | | | | | | | | | | | E-147 |
| 06-69 | Medicaid Cluster | | ✓ | | | ✓ | | | | | | | | | ✓ | E-148 |
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| 06-71** | Medicaid Cluster/SCHIP | | | | | ✓ | | | | | | | | | | E-152 |
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* Finding also attributable to the Department of Health and Human Services
** Finding also attributable to the Department of Administrative and Financial Services

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| 06-75 | Medicaid Cluster | | | | | | | | | | | | ✓ | | | E-164 |
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| 06-78 | Medicaid Cluster | | | | | | | | | | | | ✓ | | ✓ | E-170 |
| 06-79 | Medicaid Cluster | | | | | | | | | | | | | | ✓ | E-171 |
| 06-80 | Medicaid Cluster | | | | | | | | | | | | | | ✓ | E-173 |
| 06-81 | Medicaid Cluster | | | | | | | | | | | | | | ✓ | E-174 |
| 06-82 | Medicaid Cluster | | | | | | | | | | | | | | ✓ | E-180 |
| 06-83** | Medicaid Cluster | | | | | | | | | | | | | | ✓ | E-182 |
| 06-84 | Medicaid Cluster | | | | | | | | | | | | | | ✓ | E-185 |
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| 06-86 | Bioterrorism Hospital Prep | ✓ | ✓ | | | | | | | | | | | | | E-190 |
| 06-90 | Bioterrorism Hospital Prep | | | | | | | | | | | | | ✓ | | E-194 |
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| 06-26 | Rehabilitation Services | ✓ | ✓ | | | | | | | | | | | | | E-70 |
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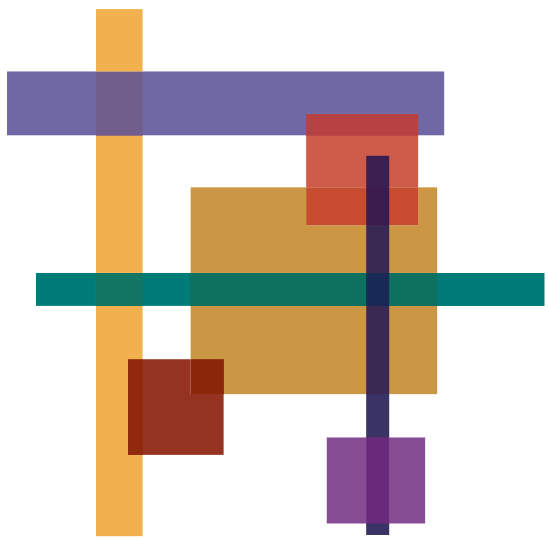
| 06-22 | Highway Planning Cluster | | | | | | | | | | ✓ | | | | | E-62 |

* Finding also attributable to the Department of Health and Human Services
** Finding also attributable to the Department of Administrative and Financial Services

# STATE OF MAINE
# SCHEDULE OF FINDINGS AND QUESTIONED COSTS
# FOR THE YEAR ENDED JUNE 30, 2006

## Section III – Federal Findings, Questioned Costs and Corrective Action Plan



**(06-06)**

**Finding Title:** Inaccurate financial reporting
**Prior Year Finding:** 05-04
**CFDA:** 10.551, 10.561
**CFDA Title:** Food Stamp Cluster
**Federal Award:** 4ME400401
**Federal Agency:** U.S. Department of Agriculture
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Health and Human Services Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Reporting

**Known Questioned Cost:** \$138,265

**Likely Questioned Cost:** \$138,265

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Standards for Financial Management Systems (7 CFR §3016.20(a)(1))

**Condition:** Controls were not in place to ensure the accuracy of federal financial reports. State funded Food Stamps costs were improperly allocated to the Food Stamps Program through the Department's cost allocation plan. Fifty percent of that amount (\$138,265) was reported on SF-269 financial reports.

**Context:** State funded Food Stamps costs were included in quarters one and four of the SF-269 financial reports.

**Cause:** State funded Food Stamps costs were incorrectly allocated to the federal Food Stamps program through the Department's cost allocation plan. The necessary adjustments were not made to remove these costs prior to compiling the financial reports.

**Effect:** The Food Stamps program incorrectly drew down \$138,265 of federal money for State funded Food Stamps.

**Recommendation:** We recommend that the Department remove the State funded Food Stamps costs from the amounts allocated to the federal Food Stamps program. We further recommend that the effected reports be revised.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services and the Department of Administrative and Financial Services agree with the finding.*

# FOOD STAMP CLUSTER

*The Department has removed the State funded Food Stamp costs from the amounts allocated to the* federal *Food Stamp program. The first and fourth quarters of the SF-269 financial reports have been revised and the federal overdraw was returned on February 13, 2007.*

*Contact: Deanna Boynton, DAFS, DHHS Service Center - Sr. Staff Accountant, 287-5540*

**(06-07)**

**Finding Title:** Inadequate internal controls and noncompliance with allowable costs requirements
**Prior Year Finding:** 05-35
**CFDA:** 10.551, 10.561, 93.558, 93.563, 93.658, 93.659, 93.767, 93.775, 93.777, 93.778
**CFDA Title:** Food Stamp Cluster
Temporary Assistance for Needy Families
Child Support Enforcement
Foster Care – Title IV-E
Adoption Assistance
State Children's Insurance Program
Medicaid Cluster
**Federal Award:** 4ME400401, METANF06, 0604ME4004, 0601ME1401, 0601ME1407, 05-0405ME5021, 0505ME5R21, 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Agriculture
U.S. Department of Health and Human Services
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Health and Human Services Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Allowable costs/Cost principles

**Known Questioned Cost:** Undeterminable

**Likely Questioned Cost:** Undeterminable

**Criteria:** General Administration – Cost Allocation Plans (45 CFR §95.507, §95.519)

**Condition:** The Department did not implement adequate controls to ensure accurate financial reporting and compliance with the prescribed methods to allocate costs. The Department of Health and Human Services has an approved cost allocation plan that no longer reflects the current operation of the Department. The errors include:

- Reported allocated costs were not based on final allocated costs
- Incorrect amounts were entered on cost allocation schedules
- Factor rates were not updated and could not be adequately supported

**Context:** This is a systemic problem.

**Cause:**
- Staff turnover
- Changes to cost allocation schedules for the Medicaid program were not communicated adequately to allow for accurate reporting of allocated costs
- The methodology for accumulating and allocating costs is not adequately documented

**Effect:**
- Inaccurate financial reports
- Unallowable costs claimed
- Potential future questioned costs

**Recommendation:** We recommend that the Department continue in its efforts to develop and implement a revised cost allocation plan.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services and the Department of Administrative and Financial Services agree with this finding. While the causes cited were addressed in fiscal year 2006, continued staff turnover prevented the Department's ability to efficiently adjust and re-submit federal financial reports within that time frame.*

*A Financial Analyst is assigned the task of managing the cost allocation plan. A Management Analyst processes the plan quarterly and posts bi-weekly funding and quarterly reconciliation journals, and these journals are reviewed and approved by the Financial Analyst. Prior year cost allocation schedule corrections were calculated in fiscal year 2006; staffing limitations and workloads of existing employees, however, caused these corrections to occur later than expected; this also caused delay to revisions to the federal reports.*

*A new Department-wide Public Assistance Cost Allocation Plan (PACAP) was submitted to the federal Division of Cost Allocation (DCA) in New York in December 2005 and a revision was submitted in March 2006. These submissions were distributed by DCA to the cognizant agencies overseeing Maine DHHS activities. Preliminary inquiries regarding the plan were received by DCA and responded to in March 2007.*

***Contact:*** *Mark Toulouse, DAFS, DHHS Service Center - Deputy Director, 287-1869*

# FOOD STAMP CLUSTER

**(06-08)**

**Finding Title:** Inadequate internal controls and noncompliance with federal cost principles
**Prior Year Finding:** No
**CFDA:** 10.551, 10.561, 93.558, 93.563, 93.575, 93.596, 93.658,
93.659, 93.667, 93.767, 93.775, 93.777, 93.778
**CFDA Title:** Food Stamp Cluster
Temporary Assistance for Needy Families
Child Support Enforcement
Child Care Cluster
Foster Care – Title IV-E
Adoption Assistance
Social Services Block Grant
State Children's Insurance Program
Medicaid Cluster
**Federal Award:** 4ME400401, METANF06, 0604ME4004,
G0501MECCDF, G0601MECCDF, 0601ME1401,
0601ME1407, MESOSR05, MESOSR06, 05-0405ME5021,
0505ME5R21, 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Agriculture
U.S. Department of Health and Human Services
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Health and Human Services Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Allowable costs/Cost principles

**Known Questioned Cost:** $2,129,301 ($1,249,000 SSBG; $880,301 CCDF)

**Likely Questioned Cost:** Undeterminable

**Criteria:** Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87)

**Condition:** The Department did not have adequate procedures in place to ensure that the proper amounts of allocated costs were journaled to the various federal programs. The errors include:

- Several programs paid excessive regional operations costs due to insufficient funding in other programs
- Two programs paid excessive legal services costs (included in the questioned costs)
- One program was not charged its share of Office of Integrated Access and Support costs
- Total costs to be allocated to the various federal programs were calculated inaccurately

**Context:** This is a systemic problem. Throughout the fiscal year, three Bureaus of the Department of Health and Human Services (DHHS) did not pay for their share of regional operations costs which totaled $6.7 million. As a result, the remaining DHHS programs paid $5.6 million in excessive regional operations costs, causing some programs to overdraw from

their respective grants. Although this $5.6 million was returned to the program accounts in fiscal year 2007, the three DHHS Bureaus have not yet paid for their share of fiscal year 2006 costs.

For fiscal year 2006, Social Services Block Grant (SSBG) paid for and reported $1.2 million in excess legal services costs. The Child Care Development Fund (CCDF) paid for and reported $1.3 million in excess legal services costs; however, since DHHS returned $392,800 to CCDF in September 2006, we will only question the remaining $880,301. We also note that CCDF requested and received an additional State appropriation of $3 million to cover program costs for which federal funds were not available.

**Cause:**
- Inadequate accounting procedures
- Insufficient funds

**Effect:**
- Current and potential future questioned costs
- Disproportionate share of allocated costs charged to federal programs

**Recommendation:** We recommend that the Department implement accounting procedures to ensure that the State's accounting system adequately reflects the proper allocation of pooled costs.

**Management Response/Corrective Action Plan:** *The Department of Administrative and Financial Services, DHHS Service Center agrees with this finding.*

*Funds were received in the fiscal year 2007 supplemental budget to correctly post regional operations costs for which federal funds were not available. As fiscal year 2007 progressed, however, the regional operations account, which is funded by bi-weekly journals based on historical quarters, was able to partially correct the allocations via JV10A8107DW0006 in March 2007. The final reconciliation for fiscal year 2007 was posted via ABSJ10A8107DW0003 in August 2007. The two journals transferred regional operations general funds (the latter journal from the fiscal year 2007 supplemental appropriation) on behalf of the three bureaus in question. Similarly, journals were posted in fiscal year 2007 correcting the fiscal year 2006 underpayment using fiscal year 2007 supplemental funds. It is the Department's belief that, through these journal transfers, the bureaus in question have paid their respective portions of fiscal year 2006 and fiscal year 2007 costs. In the new department cost allocation plan, effective July 1, 2007, a reconciliation process is in place whereby those costs assigned to federal programs that cannot be absorbed by those programs due to federal fund participation (FFP) rates, will be transferred to the allocated account's general fund within a unit referring to the federal program assigned the cost. The first such reconciliation will be processed after quarter ending September 30, 2007.*

*We agree that Attorney General fees charged were incorrectly posted. A correction returning funds to the child care development block grant from foster care and adoption assistance accounts was posted via JV 10A 8107KK09018 on 9/27/06, covering quarters ending 12/31/05,*

*3/31/06, and 6/30/06. The Department feels it can perform analysis and post the remaining corrections before 10/31/07, the due date for the next quarterly IV-E report.*

***Contact:*** *Mark Toulouse, DAFS, DHHS Service Center - Deputy Director, 287-1869*

**(06-09)**

**Finding Title:** Inadequate controls over cash management
**Prior Year Finding:** No
**CFDA:** 10.561, 10.551
**CFDA Title:** Food Stamp Cluster
**Federal Award:** 4ME400401
**Federal Agency:** U.S. Department of Agriculture
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Health and Human Services Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Cash management

**Known Questioned Cost:** $674,000

**Likely Questioned Cost:** $674,000

**Criteria:** Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement (31 CFR §205 Subpart B)

**Condition:** Controls were not in place to ensure that cash draws were performed in accordance with federal regulations. Inconsistent methods of drawing down cash resulted in both excessive and negative cash balances during the fiscal year. Additionally, total federal cash drawn for the fiscal year exceeded reported expenditures by $674,000. The program appears to have paid for excessive allocated costs that were not reported to the federal government.

**Context:** This is a systemic problem. The program had an excessive cash balance in four of eleven months tested and a negative cash balance in five of the eleven months tested. Overall, cash draws exceeded reported expenditures.

**Cause:**

- The Food Stamps program does not have a unique account within the State's accounting system which allows for tracking the program's cash balance
- Improper allocation of central services costs
- Reconciliation of cash draws to reported expenditures was not performed timely

**Effect:** Non-compliance with cash management requirements

**Recommendation:** We recommend that the Department establish separate accounts for the Food Stamp program and monitor the cash balance. We also recommend that the program reconcile federal cash draws to reported expenditures.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services and the Department of Administrative and Financial Services agree with the finding.*

*Effective 07/01/06, a new separate account was set up for the Food Stamp program, making it easier to monitor the cash balance.*

*The DHHS Service Center has created a process to reconcile the federal cash draws to the reported expenditures on a quarterly basis.*

*During fiscal year 2007, the Food Stamps reports were revised and the overdraw amount was returned to the federal government.*

***Contact:*** *Deanna Boynton, DAFS, DHHS Service Center - Sr. Staff Accountant, 287-5540*

**(06-10)**

**Finding Title:** Inadequate internal controls and noncompliance with federal matching requirements
**Prior Year Finding:** No
**CFDA:** 10.551, 10.561, 93.563, 93.658,
93.659, 93.775, 93.777, 93.778
**CFDA Title:** Food Stamp Cluster
Child Support Enforcement
Foster Care – Title IV-E
Adoption Assistance
Medicaid Cluster
**Federal Award:** 4ME400401, 0604ME4004, 0601ME1401,
0601ME1407, 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Agriculture
U.S. Department of Health and Human Services
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Health and Human Services Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Matching, level of effort, earmarking

**Known Questioned Cost:** Undeterminable

**Likely Questioned Cost:** Undeterminable

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments (45 CFR §92.20, §92.24)

**Condition:** The Department did not have adequate controls to ensure that federal matching requirements were met with respect to allocated costs. We tested two allocation schedules, one to allocate legal services costs and another to allocate Office of Integrated Access and Support costs. We were unable to find State funded expenditures at the level necessary to meet the various matching requirements for the federal programs participating in these cost pools.

**Context:** This is a systemic problem. For the two allocation schedules tested, State paid expenditures were deficient by $3.1 million to meet the various federal matching requirements. Federal funds were most likely drawn to cover some of the State's share of these allocated costs. However, due to the complexity with the accounting associated with the Department of Health and Human Services' cost allocation plan, we were unable to calculate unmet State match.

**Cause:** The Department assumes that the General fund appropriation received for the allocated cost pools is sufficient to help meet the State's matching requirements. However, no reconciliation is performed to ensure that this assumption is correct.

**Effect:**
- Possible noncompliance with federal matching requirements
- Potential questioned costs

**Recommendation:** We recommend that the Department implement procedures to ensure federal matching requirements are met with respect to allocated costs.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services and the Department of Administrative and Financial Services agree with this finding.*

*While the quarterly reconciliation process assured that federal programs were not overcharged, match calculations could not easily be determined due to the various funds used in the Department's allocated accounts. This issue has been addressed in the Department's new cost allocation plan, submitted to the Division of Cost Allocation (DCA) in December 2005 with a revision submitted in March 2006. In the new plan's reconciliation process, expenditures assigned to a federal program but not chargeable due to the program's federal participation rate will be transferred to the allocated account's general fund within a unit (formerly report org) identifying the program. After a particular quarter's reconciliation process, queries can be executed that will identify both the amount of allocated costs posted to a particular program, as well as those costs retained in the allocated general fund account on behalf of that particular program. This new reconciliation process will begin with fiscal year 2008 allocated costs. The first reconciliation will take place in October 2007.*

***Contact:*** *Mark Toulouse, DAFS, DHHS Service Center - Deputy Director, 287-1869*

# FOOD STAMP CLUSTER

**(06-11)**

**Finding Title:** Inadequate controls over and noncompliance with reporting requirements
**Prior Year Finding:** 05-42
**CFDA:** 10.551, 10.561
**CFDA Title:** Food Stamp Cluster
**Federal Award:** 4ME400401
**Federal Agency:** U.S. Department of Agriculture
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of Integrated Access and Support

**Finding Type:** Internal control and compliance

**Compliance Area:** Reporting

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (7 CFR §3016.20(1))

**Condition:** Controls were not in place to ensure the accuracy and timeliness of the Claims Against Households reports (FNS-209 report).

**Context:** This is a systemic problem. None of the reports submitted during fiscal year 2006 were subjected to a review process. Two of the four reports were submitted after the due date. One of these reports was 26 days late.

**Cause:** Established procedures for compiling and submitting the FNS-209 report did not include a process for review.

**Effect:** The possibility of:

- Inaccurate reports
- Late reports
- Sanctions for excessively late reporting

**Recommendation:** We recommend that the Food Stamps program implement a review process to ensure the accuracy and timeliness of the FNS-209 reports.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*The Office of Integrated Access and Support, Food Stamp Division has developed a review process. The Automated Client Eligibility System (ACES) populates the report. The Food Stamp*

*Program Manager will review the quarterly FNS-209 reports before it is submitted (implementation date May 2007).*

***Contact:*** *Bob Thibodeau, DHHS - Family Independence Program Manager / Food Stamps, 287-5054*

**(06-12)**

**Finding Title:** Inadequate control procedures and non-compliance with automatic cutoff requirements
**Prior Year Finding:** No
**CFDA:** 10.551, 10.561
**CFDA Title:** Food Stamp Cluster
**Federal Award:** 4ME400401
**Federal Agency:** U.S. Department of Agriculture
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of Integrated Access and Support

**Finding Type:** Internal control and compliance

**Compliance Area:** Special tests and provisions

**Known Questioned Cost:** $17,149

**Likely Questioned Cost:** $219,000
Likely questioned costs were calculated by applying the sample error rate (13/60 = 22%) to the total population (764 x 22% = 166). We then calculated the average overpayment for the sample ($17,149 / 13 = $1,319) and applied that to the projected errors within the total population ($1,319 X 166 = $218,954).

**Criteria:** Requirements for Participating State Agencies – ADP/CIS Model Plan (7 CFR §272.10(b)(1)(iii) and §273.10(f) and (g))

**Condition:** Controls were not in place to ensure that in all cases benefits were automatically cut off after the certification period. As such, benefits were paid even though the necessary redeterminations were not performed.

**Context:** We identified 764 cases where the redetermination date appeared stale or was left blank. The benefits for these cases would not be *automatically* terminated at the end of the eligibility period as is required by program regulations. From this population we tested a sample of 60 cases. We found the following:

- 13 of the 60 cases did not have the required redetermination and their benefits were not automatically terminated

- 38 of the 60 cases were active cases that were not yet due for a redetermination. The stale or blank redetermination date would preclude the benefits from automatically terminating after the next redetermination date
- The remaining nine cases were inactive and not currently receiving benefits

**Cause:** An intricacy of the Automated Client Eligibility System (ACES) requires that the redetermination date be entered on a particular screen for that automated function to work properly. Program personnel were not adequately trained to ensure that this date was appropriately entered.

**Effect:** Current and future questioned costs.

**Recommendation:** We recommend that the Food Stamps Program properly train all personnel in order to fully utilize the automated functions of the ACES system to comply with program regulations.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with the finding.*

*This issue is a system programming issue, not a training issue. The Office of Integrated Access and Support (OIAS) is working with the programmers for ACES to correct the End of Month mass change feed which is the cause of the audit condition. In the meantime, a report will be created each month to identify any cases without redetermination dates. This report will be sent to local offices for immediate action (implementation date February 2007).*

*OIAS will be reviewing each case; if an overpayment has occurred, OIAS will be recouping the overpayment.*

***Contact:*** *Bob Thibodeau, DHHS - Family Independence Program Manager / Food Stamps, 287-5054*

**Please see the following findings for other issues relating to this program.**

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# SPECIAL SUPPLEMENTAL NUTRITION PROGRAM
# FOR WOMEN, INFANTS AND CHILDREN

**(06-13)**

**Finding Title:** Noncompliance with cash management requirements
**Prior Year Finding:** 05-43
**CFDA:** 10.557
**CFDA Title:** Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
**Federal Award:** 4ME700701
**Federal Agency:** U.S. Department of Agriculture
**State Department:** Health and Human Services (DHHS)
**Bureau:** Maine Center for Disease Control and Prevention

**Finding Type:** Internal control and compliance

**Compliance Area:** Cash management

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement (31 CFR §205 Subpart B).

**Condition:** Control procedures are not adequate to ensure compliance with cash management requirements. Nine of the twenty-two cash draws for nutrition services and administration expenditures were not made in accordance with cash management requirements.

**Context:** This is a systemic problem.

**Cause:** Inadequate procedures

**Effect:** Possible future questioned costs.

**Recommendation:** We recommend that the Special Supplemental Nutrition Program for Women, Infants and Children implement control procedures to ensure compliance with cash management requirements.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*New procedures were implemented to ensure that the drawdown of federal cash meets federal requirements (implementation date May 2007).*

*The following procedures have been put into place:*

1. *The Staff Accountant will monitor cash daily.*

2. *The Staff Accountant will inform the Program Director or Assistant Director of the need to draw down cash consistent with cash management requirements based on invoices presenting for payment, payroll expense and warehouse expenses for that date.*
3. *With approval of the Program Director or Assistant Director, draw down requests will be prepared by the Staff Accountant.*
4. *The Program Director or Assistant Director will sign and approve each draw down request.*

***Contact:*** *Chris Zukas-Lessard, DHHS - Maine Center for Disease Control and Prevention (CDC), Deputy Director, 287-5178*

**(06-14)**

**Finding Title:** Noncompliance with subrecipient monitoring requirements
**Prior Year Finding:** 05-44
**CFDA:** 10.557
**CFDA Title:** Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
**Federal Award:** 4ME700701
**Federal Agency:** U.S. Department of Agriculture
**State Department:** Health and Human Services (DHHS)
**Bureau:** Maine Center for Disease Control and Prevention

**Finding Type:** Internal control and compliance

**Compliance Area:** Subrecipient monitoring

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Management evaluation and monitoring reviews (7 CFR §246.19 (b)(3)); Federal Agencies and Pass-Through Entities Responsibilities (OMB Circular A-133, Subpart D, §__.400 (d).

**Condition:** Internal controls are not adequate to ensure compliance with subrecipient monitoring requirements. We noted the following:

- All nine WIC subrecipient contracts failed to reference the CFDA title, award name, award number, or name of the federal agency, as required by OMB Circular A-133.
- One subrecipient did not receive an OMB Circular A-133 audit within nine months of the end of the subrecipient's fiscal year end.

**Context:** This is a systemic problem.

# SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS AND CHILDREN

**Cause:** Inadequate supervisory review

**Effect:** Failure to include the required information compromises the subrecipient's ability to properly administer the awarded funds. Additionally, lack of subrecipient oversight may allow noncompliant subrecipient activity to go undetected.

**Recommendation:** We recommend that the Special Supplemental Nutrition Program for Women, Infants and Children ensure that all subrecipient monitoring requirements are met.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*The WIC program has revised its contract templates to include the CFDA title, award name, or name of the federal agency, as required by OMB Circular A-133 (implementation date May 2007). The program will also send notification regarding OMB Circular A-133 audit requirements to each agency annually to coincide with the end of the agency's fiscal year (anticipated implementation date October 2007).*

***Contact:*** *Nora Bowne, DHHS – Special Supplemental Nutrition Program for Women, Infants and Children (WIC), Director, 287-5342*

**Please see the following findings for other issues relating to this program.**

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# CHILD AND ADULT CARE FOOD PROGRAM

**(06-15)**

**Finding Title:** Inadequate controls over and non-compliance with subrecipient cash management requirements
**Prior Year Finding:** No
**CFDA:** 10.558
**CFDA Title:** Child and Adult Care Food Program
**Federal Award:** 04ME300302
**Federal Agency:** U.S. Department of Agriculture
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of Child & Family Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Cash management

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Sponsoring organization provisions (7 CFR §226.16 (g) and (h))

**Condition:** The Department did not have adequate internal controls in place to ensure that sponsoring organizations receive and then disburse cash within the five day federal requirement.

**Context:** This is a systemic problem.

**Cause:** The Child and Adult Care Food Program only monitors the sponsoring organization's compliance with this federal requirement when the program contract specialists do their site reviews. These site reviews are required once every three years with the exception of Catholic Charities that is required to be reviewed once every other year.

**Effect:** Noncompliance with federal subrecipient cash management requirements.

**Recommendation:** We recommend that the Program take steps to monitor the sponsoring organizations cash management on a more frequent basis.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services disagrees with this finding.*

*The Child and Adult Care Food Program has been reviewed at both the program and financial levels by USDA and, according to those reviews, the CACFP is in compliance with USDA monitoring requirements. Under 7CFR Part 226 of the federal regulations governing the USDA Child and Adult Care Food Program, one-third of all participating CACFP organizations need*

*to be reviewed every year; sponsor agencies that have two hundred or more homes need to be reviewed every other year instead of every three years.*

***Contact:*** *Rick Jones, DHHS - Child and Adult Care Food Program, Manager, 287-5015*

***Auditor's Conclusion:*** We agree that the CACFP is in compliance with USDA in regards to their subrecipient monitoring schedule. However, our exceptions referred to in this finding are related to federal cash management requirements, which are different and more stringent.

The finding remains as stated.

**(06-16)**

**Finding Title:** Inadequate reporting of meal counts on the FNS-44 report
**Prior Year Finding:** 05-45
**CFDA:** 10.558
**CFDA Title:** Child and Adult Care Food Program
**Federal Award:** 04ME300302
**Federal Agency:** U.S. Department of Agriculture
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of Child & Family Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Reporting

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** State agency responsibilities for financial management – Reports (7 CFR §226.7(d))

**Condition:** The Department did not have adequate internal controls in place to ensure accuracy of the FNS-44 report, *Report of the Child and Adult Care Food Program*. This resulted in incorrect amounts reported for total meals claimed.

**Context:** The initial problem was found during the fiscal year 2005 audit. Because the program was not able to obtain a new computer system, the deficiencies have remained for the fiscal year 2006 audit.

**Cause:** The computer system generated inaccurate data used to compile the FNS-44 report.

**Effect:** Incorrect data was provided to the federal government.

**Recommendation:** We recommend that the Department implement controls to ensure that the FNS-44 report is accurate.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*DHHS is now working with the State agency in Rhode Island, who has developed a new claims processing program. By October 1, 2007, we anticipate the implementation of this program. This will eliminate the reporting problems created by the current payment system.*

***Contact:*** *Rick Jones, DHHS - Child and Adult Care Food Program, Manager, 287-5015*

**(06-17)**

**Finding Title:** Insufficient procedures over subrecipient A-133 audits
**Prior Year Finding:** 05-65
**CFDA:** 10.558, 93.044, 93.045, 93.053, 93.575, 93.596, 93.667, 93.889
**CFDA Title:** Child and Adult Food Care Program
Aging Cluster
Child Care Cluster
Social Services Block Grant
National Bioterrorism Hospital Preparedness Program
**Federal Award:** 4ME300302, G0501MECCDF/G0601MECCDF, G061MESOSR, U3RMC00034, U3RMC03935, U3RHS05961, 5AAMET3SP/06AAMET3SP, 05AAMENSIP/06AAMENSIP
**Federal Agency:** U.S. Department of Agriculture
U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Division of Audit

**Finding Type:** Internal control and compliance

**Compliance Area:** Subrecipient monitoring

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local and Tribal Governments – Non-Federal Audit (45 CFR §92.26, 7 CFR §3016.26)

**Condition:** The Department did not have adequate controls in place to ensure that management decisions were issued in accordance with federal regulations for subrecipient audit findings.

Additionally, the Department did not have procedures in place to ensure that all subrecipients requiring an A-133 audit obtained such an audit in a timely manner. The Department only notifies those subrecipients that are subject to the Maine Uniform Accounting and Auditing Practices Act for Community Agencies (MAAP) when their audits are due.

**Context:** Prior to fiscal year 2007, the Division of Audit did not have the responsibility of issuing management decisions on subrecipient audit findings. Currently, they are reviewing prior audit reports to ensure that subrecipients are providing corrective action plans and making management decisions on those plans. As a result, management decisions were either issued late or are still in the process of being finalized. Additionally, five of the ten A-133 audits reviewed were late. A notification letter was only sent to four of the five subrecipients.

**Cause:** Prior to fiscal year 2007, there was no system in place to act on the issuance of management decisions.

**Effect:** Noncompliance with subrecipient monitoring requirements

**Recommendation:** We recommend that the Department:

- Continue with the current practice established after fiscal year 2006 to ensure that management decisions are issued in compliance with OMB Circular A-133 requirements.
- All subrecipients are sent a reminder letter when the A-133 audits are due, including those who are exempt from MAAP audits.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with one component of the finding and disagrees with another.*

*Management decisions were not made within six (6) months after the receipt of the subrecipient's audit report as required by Federal Circular A-133, paragraph .400. During fiscal year 2006, management decisions on Federal A-133 audit findings were made by the Department's Corrective Action Officer upon receipt of the Office of Audit's Examination Report that included the A-133 findings as part of the findings developed during that Examination. This Department Examination Report was issued beyond the six (6) month time limit for management decisions identified by A-133. The Department's Corrective Action Officer left on April 30, 2006. The responsibility for the corrective action followup was transferred to the Office of Audit. The Office of Audit's procedures, effective July 1, 2006, are to review all Federal A-133 audits upon receipt, request corrective when applicable, and issue a management decision within six (6) months of receipt of the Federal A-133 Report. We are currently implementing the recommendation.*

*We do not agree that the Department did not have procedures in place to ensure that all subrecipients requiring an A-133 audit obtained such an audit in a timely manner. The Office of Audit acknowledges that notification letters were not sent to approximately 10% of the subrecipients as they were "exempt" agencies as defined by the Maine Uniform Accounting and Auditing Practices for Community Agencies (MAAP). However, the Office of Audit maintains a data base that identifies the subrecipients that receive social service agreements from the*

*Department. This data base identifies the projected federal and State funding available to a subrecipient from Department agreements during the subrecipient's fiscal year. Based on this data and historical audit information, the Office of Audit determines which subrecipients are required to have Federal A-133 and special Department (MAAP) audits, and monitors subrecipients (including MAAP exempt agencies) specific to these requirements.*

***Contact:*** *David Surette, DHHS – Office of Audit, Program Manager, 287-2779*

***Auditor's Conclusion:*** While the Department maintains a database, its practice is to send a reminder letter to subrecipients requiring an audit. The Department did not send the letters to all subrecipients who required an audit and we saw no other evidence of monitoring.

The finding remains as stated.

**Please see the following findings for other issues relating to this program.**

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# WIA CLUSTER
# (WORKFORCE INVESTMENT ACT)

**(06-18)**

**Finding Title:** On-site monitoring not performed
**Prior Year Finding:** No
**CFDA:** 17.258, 17.259, 17.260
**CFDA Title:** WIA Cluster
**Federal Award:** AA13802, EM11650
**Federal Agency:** U.S. Department of Labor
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Security and Employment Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Subrecipient monitoring

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Administrative Provisions under Title I of the Workforce Investment Act (20 CFR §667)

**Condition:** According to federal regulations, States must conduct annual on-site monitoring reviews of each of their Local Workforce Investment Areas (LWIAs). During the fiscal year, the program did not perform on-site financial monitoring for three of the four LWIAs. However, on-site programmatic monitoring was conducted at all four locations.

**Context:** For fiscal year 2006, the four LWIAs received a total of $10.4 million in WIA pass-thru funds. The three LWIAs that did not have on-site financial reviews received a total of $8.2 in WIA funds.

**Cause:** Due to lack of resources, the Program was unable to perform the on-site financial monitoring at all four locations.

**Effect:** Financial noncompliance by the subrecipient could go undetected.

**Recommendation:** We recommend that the Program perform comprehensive annual on-site monitoring reviews at each LWIA.

**Management Response/Corrective Action Plan:** *We concur with the finding.*

*As of the date of this response, on-site monitoring reviews have been performed at each LWIA and are scheduled to occur annually at each LWIA. The monitoring program and procedures were reviewed and accepted by the US Department of Labor (USDOL) in the Spring of 2007. In addition, two on-site monitoring reviews were performed in conjunction with the USDOL.*

***Contact**: Robert Schenberger, DAFS, SESC, Managing Staff Accountant, 623-6723*

# WIA CLUSTER
# (WORKFORCE INVESTMENT ACT)

**Please see the following findings for other issues relating to this program.**

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**(06-19)**

**Finding Title:** Unallowable bond service fees charged
**Prior Year Finding:** No
**CFDA:** 20.205
**CFDA Title:** Highway Planning and Construction
**Federal Award:** PIN# 7965.61
**Federal Agency:** U.S. Department of Transportation
**State Department:** Transportation (MDOT)
**Bureau:** Finance and Administration

**Finding Type:** Compliance

**Compliance Area:** Allowable costs/Cost principles

**Known Questioned Cost:** $49,359

**Likely Questioned Cost:** $49,359

**Criteria:** Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87)

**Condition:** Service fees totaling $49,359 were paid to the lender during fiscal year 2006 for services relating to GARVEE bonds issued to finance the Waldo – Hancock Bridge project. These service fees are not an allowable cost of this program.

**Context:** This is an isolated instance.

**Cause:** Lack of understanding of program regulations.

**Effect:** Program funds were used for unallowable costs.

**Recommendation:** We recommend that the Department follow through with their plan to repay the funds.

**Management Response/Corrective Action Plan:** *The Department of Transportation agrees with this finding.*

*We will make the necessary adjustments to repay Federal Highway Administration for the prior reimbursement claims, and will adjust our future commitments so that these fees will be expensed from the Highway Fund for the remainder of the GARVEE Debt Service Agreement (anticipated implementation date September 2007).*

***Contact:** Terry Caswell, DOT - Director of Budget and Fiscal Operations, 624-3112*

**(06-20)**

**Finding Title:** Inadequate controls to ensure compliance with Davis-Bacon requirements
**Prior Year Finding:** 05-75
**CFDA:** 20.205
**CFDA Title:** Highway Planning and Construction
**Federal Award:** Various (57 Project Identification Numbers)
**Federal Agency:** U.S. Department of Transportation
**State Department:** Transportation (MDOT)
**Bureau:** Project Development

**Finding Type:** Internal control and compliance

**Compliance Area:** Davis – Bacon Act

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Labor Standards Provisions Applicable to Contracts Covering Federally Financed and Assisted Construction (29 CFR §5)

**Condition:** The Department does not have controls in place to ensure that the resident engineers are verifying through certified payrolls that the contractors are paying their employees the prevailing wage rates for the jurisdiction where they are working. We noted the following deficiencies:

- The resident engineers did not obtain all of the certified payrolls for 16 of the 60 files reviewed.
- The procedures to ensure that the contractors are properly classifying and compensating their employees are not being applied in a systematic manner. Fifty-six of the sixty files reviewed contained at least some issue with the quality assurance and control process.

**Context:** This is a systemic problem. The Department is not maintaining an adequate internal control system to ensure compliance.

**Cause:** Lack of enforcement.

**Effect:** The Department could face possible federal sanctions for non-compliance.

**Recommendation:** We recommend that the Department implement a system of controls to ensure that wage rate verifications are being performed in accordance with the Davis - Bacon Act.

**Management Response/Corrective Action Plan:** *Enforcement of Davis-Bacon is a priority for the Maine DOT. In fact, the Department reorganized and formed a Civil Rights group in 2005 to in part better address this requirement. The need for Davis-Bacon inspections has been*

*discussed at Documentation Training given over the last three winters to field people in charge of these inspections. The Contracts group conducts random visits to check documentation in general on active projects throughout the field season and does check to see if the Field Residents are doing these inspections. The Civil Rights Office has also committed to inspections of active construction projects, unfortunately the staff person charged with doing this work in the summer of 2006 was out almost the entire season due to a severe illness. We restructured this season but again ran into some specific staff issues. It has become clear that relying on one individual to check the residents and contractors is not sufficient. The Department is committed to strengthening the quality assurance part of this process by hiring an additional person in the Contracts section to work on documentation issues on ongoing projects. The Civil Rights Office is also spreading this task around the entire Office instead of relying on one person. In addition to these steps there has been written communication to field staff, communication from the Bureau Director to Project Managers and communication to the Program Managers from Bureau Management that in the future, Residents who are not conducting Davis-Bacon inspections can face progressive discipline (anticipated implementation date June 2008).*

*We believe the severity of the errors noted were not significant. Although there was a pattern of some missing information it appeared to always be minor. We argue that this indeed illustrates a commitment of the Department to enforce Davis-Bacon laws.*

*We did take note of the auditor's verbal comment that he was looking for a more random approach on how the Civil Rights Office chooses the projects to conduct visits. The Department commits to changing the visitation schedule for the 2008 construction season based on the auditor's comments.*

***Contact:** Ken Sweeney, DOT - Director Bureau Project Development, 624-3400*

**(06-21)**

**Finding Title:** Missing suspension and debarment certifications or verifications
**Prior Year Finding:** 05-74
**CFDA:** 20.205
**CFDA Title:** Highway Planning and Construction
**Federal Award:** PIN# 00786600, 00884200, 00782400, 01184200, 00887500, 00889800, 00214207, 01022700, 01010600, 00432710, 00211807, 00789710, 01072200, 00789600, 01231500, 01103102, 01120500, 01159700, 01123200, 01184000
**Federal Agency:** U.S. Department of Transportation
**State Department:** Transportation (MDOT)
**Bureau:** Finance and Administration

**Finding Type:** Internal control and compliance

**Compliance Area:** Procurement and suspension and debarment

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Governmentwide Debarment and Suspension (Nonprocurement) – Responsibilities of Participants Regarding Transactions (49 CFR §29 Subpart C)

**Condition:** The Department did not have adequate internal controls in place to ensure compliance with federal suspension and debarment requirements. The Department did not verify that parties to contracts were not suspended or debarred in 20 of the 60 contracts tested. The 20 contracts without suspension and debarment verifications are related only to agreements with municipalities.

**Context:** Total contract payments during the fiscal year were $173.3 million. We tested $93.1 million and found suspension and debarment verification procedures were not performed on $5.2 million of these contract payments.

**Cause:** Lack of training and/or understanding of program regulations.

**Effect:** The Department may potentially contract with suspended or debarred parties, resulting in questioned costs.

**Recommendation:** We recommend that the Department consistently follow procedures established to ensure compliance with federal regulations.

**Management Response/Corrective Action Plan:** *As the audit finding regarding suspension and debarment primarily involves municipal and quasi-public entities, there is little risk of involvement of suspension and debarment regarding individuals employed by these governmental entities.*

***Corrective Action:*** *In order to eliminate this finding in the future, MaineDOT will incorporate debarment language into its agreement templates consistent with FHWA Form 1273 - Required Contract Provisions for Federal-Aid Contracts (anticipated implementation date December 2007).*

***Contact:*** *Gale Lizzotte, DOT - Procurement Support Manager, 624-3529*

**(06-22)**

**Finding Title:** Program income not used to offset costs or expand the program
**Prior Year Finding:** No
**CFDA:** 20.205
**CFDA Title:** Highway Planning and Construction
**Federal Award:** PIN# 00305106
**Federal Agency:** U.S. Department of Transportation
**State Department:** Transportation (MDOT)
**Bureau:** Finance and Administration

**Finding Type:** Internal control and compliance

**Compliance Area:** Program income

**Known Questioned Cost:** $378 ($420 @ 90% of federal participation rate)

**Likely Questioned Cost:** $20,470 (Varying federal participation rates (ffp) are utilized for this program. We calculated likely questioned costs based on the ffp rate used for the training costs associated with our known questioned cost - $22,745 @ 90% of federal participation rate)

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Program Income (49 CFR §18.25)

**Condition:** The Department does not have adequate procedures in place to ensure that program income is used in accordance with federal requirements. During fiscal year 2006, the Department received program income associated with federally funded training seminars. This revenue was not used to offset program expenditures or to expand the program as is required. Instead, the revenue was deposited into the State's Special Revenue Fund.

**Context:** Total registration fees for fiscal year 2006 were $22,745.

**Cause:** Department personnel did not properly identify revenues as program income in the Department's project accounting system.

**Effect:** Current and potential future questioned costs.

**Recommendation:** We recommend that the Department develop procedures to ensure that program income is properly identified and used to offset program expenditures or to expand the program.

**Management Response/Corrective Action Plan:** *The Department of Transportation agrees with this finding.*

*It is our intent to establish a policy for any training program so that program revenues will be expensed within the program, thus reducing the total participating program expenditures. Since*

*the federal billing amount is calculated at the authorized federal participation rate times the participating expenditures, this will insure that the proper amount of federal funding is collected (anticipated implementation date December 2007).*

***Contact:*** *Terry Caswell, DOT - Director of Budget and Fiscal Operations, 624-3112*

**Please see the following findings for other issues relating to this program.**

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# TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

**(06-23)**

**Finding Title:** Noncompliance with subrecipient cash management requirements
**Prior Year Finding:** 05-09
**CFDA:** 84.010, 84.027, 84.287
**CFDA Title:** Title I Grants to Local Educational Agencies
Special Education: Grants to States
21st Century Community Learning Centers
**Federal Award:** S010A050019A, H027A050109A, S287C050019
**Federal Agency:** U.S. Department of Education
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** General Government Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Cash management

**Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (34 CFR §80.37)

**Condition:** Internal control procedures were not adequate to ensure that subrecipients complied with cash management requirements. The Department is responsible for making cash draws for Department of Education programs and monitoring subrecipients' cash balances. If subrecipients have excess cash balances or fail to submit their cash reports, then subsequent payments should be withheld.

**Context:** This is a systemic problem. The procedures ensuring subrecipients complied with cash management requirements were not followed in nine of twenty instances:

- Three subrecipients having excess cash on hand were not properly identified; consequently scheduled payments were not withheld.
- Four subrecipients having excess cash on hand were not properly identified. No payments were made because none were scheduled; however scheduled payments would not have been withheld.
- One subrecipient having excess cash on hand for three programs was not properly identified. Payment was made for one program. There were no payments made to the subrecipient for the other two programs because none were scheduled; however, scheduled payments would not have been withheld.
- One subrecipient was incorrectly identified as having excess cash on hand for two programs. No payments were scheduled, so no payments were incorrectly withheld. The same subrecipient was not identified as having excess cash on hand for another program. No payments were made because none were scheduled, however scheduled payments would not have been withheld.

**Cause:**

- Lack of supervision
- Procedures not followed

**Effect:** Noncompliance with federal cash management requirements.

**Recommendation:** We recommend that the Department improve monitoring procedures to provide reasonable assurance that subrecipients comply with cash management requirements.

**Management Response/Corrective Action Plan:** *The Department of Administrative and Financial Services agrees with this finding.*

*Beginning fiscal year 2008, the Department of Education and Department of Administrative and Financial Services will gain electronic access to school- system records through the new MEDMS system. This will allow DAFS to monitor actual cash and ensure school systems comply with cash management requirements.*

***Contact:*** *Katharine Wiltuck, DAFS – Financial and Personal Services, Financial Analyst, 624-7406*

**Please see the following findings for other issues relating to this program.**

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**(06-24)**

**Finding Title:** Suspension and debarment certifications not obtained
**Prior Year Finding:** 05-11
**CFDA:** 84.027
**CFDA Title:** Special Education - Grants to States
**Federal Award:** H027A050109A
**Federal Agency:** U.S. Department of Education
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** General Government Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Suspension and debarment

**Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (34 CFR §80.35), Government-Wide Debarment and Suspension (34 CFR §85.300)

**Condition:** The Department did not have adequate internal controls in place to ensure that vendors receiving special contracts were not suspended or debarred. They did not obtain the required suspension and debarment certifications for all vendors. No other procedures were performed to ensure that the vendors were not suspended or debarred.

**Context:** This is a systemic problem. Certifications were not obtained for three of twelve vendors exceeding the $25,000 threshold. However, none of the three were suspended or debarred, based on audit testing.

**Cause:** Lack of supervision

**Effect:** Noncompliance with suspension and debarment requirements.

**Recommendation:** We recommend that the Department implement control procedures to ensure that they are not contracting with vendors that are suspended or debarred.

**Management Response/Corrective Action Plan:** *The Department of Administrative and Financial Services agrees with this finding.*

*The Department of Education and the Department of Administrative and Financial Services require that vendors sign and return certifications that they are not suspended or debarred; however, in practice these certifications were not always kept with the original contracts. In*

*order to address this finding, the certifications are now being incorporated as a part of each contract for which this requirement applies (implementation date December 2006).*

***Contact:*** *Katharine Wiltuck, DAFS – Financial and Personal Services, Financial Analyst, 624-7406*

**(06-25)**

**Finding Title:** Inadequate control over monitoring of subrecipient maintenance of efforts requirements
**Prior Year Finding:** No
**CFDA:** 84.027
**CFDA Title:** Special Education - Grants to States
**Federal Award:** H027A050109A
**Federal Agency:** U.S. Department of Education
**State Department:** Education (MDOE)
**Bureau:** Special Services Team

**Finding Type:** Internal control and compliance

**Compliance Area:** Subrecipient monitoring

**Questioned Cost:** Undeterminable

**Likely Questioned Cost:** Undeterminable

**Criteria:** Assistance to States for the Education of Children with Disabilities (34 CFR §300.231)

**Condition:** The Department did not verify amounts reported by Local Educational Agencies (LEAs) used to support compliance with federal maintenance of effort requirements. MDOE is required to perform a pre-award comparison of each LEAs budgeted expenditures for the current grant year with their actual expenditures of the prior grant year to ensure compliance with maintenance of effort requirements.

**Context:** This is a systemic problem. Although the required comparison of prior period actual to current budget was performed, none of the amounts reported by the LEAs were verified. Prior year audits have shown these amounts to be inaccurate.

**Cause:** Lack of procedures

**Effect:**
- Noncompliance with LEA monitoring requirements
- Potential questioned costs resulting from incorrect LEA allocations

**Recommendation:** We recommend that the Department implement controls, such as performing a comparison of the amounts reported by each LEA on the application to the actual amounts reported on the audited EF-S-02 and EF-S-07, to ensure compliance with maintenance of effort requirements.

**Management Response/Corrective Action Plan:** *The Department of Education agrees with this finding.*

*The State auditors found inadequate internal controls for Maintenance of Effort requirements. The issue was not that we failed to review Maintenance of Effort requirements, but that a verification of accuracy of the figures provided by the local school administrative units (or LEA's) was not being done.*

*The question of Maintenance of Effort is part of our local entitlement application for federal funding and since the application is an electronic process completed over the web, we will download the actual reporting from State forms, EF-S-02 and EF-S-07, into the application, thus eliminating the chance of error on reporting actual cost when manually entered by the school units. The school units will only have to enter budgeted amounts for the following year. The application for funds is not approved until the Maintenance of Effort question is satisfactorily addressed by the school units.*

*Because the close of the school year is June 30, the final expenditures for special education by the school units are not due at the Maine Department of Education until July 15. Our local entitlement application for federal funds is mailed to the school units around July 15 so figures for actual expenditures for special education are not available by the State to download into the application until later. Many applications are not in at this point. This delay continues to be problematic plus the fact that the IDEA requires a review within the year.*

*Because the Commissioner of Education has to present to the State Board the figures for supporting education funding by January 1, the actual approval of previous year's expenditures is not completed until November/December.*

*We will download the information to verify actual expenditures by the end of December (2007). Our accountant will have completed reviews of all special education expenditures and provided a copy of those figures to our contractor who will then download everything into the school unit's individual local entitlement application. This has not been done in the past resulting in a continuance of this audit finding. Once this is completed, we will run the list against the figures provided by the school units to verify the accuracy of the figures provided. We will follow up with those units where discrepancies exist and make corrections based on the actual figures submitted on the State forms EF-S-02 and EF-S-07. If the figures provided on the State forms are inaccurate, then those will be corrected. This will be completed during fiscal year 2007-2008.*

***Contact:*** *John Kierstead, Department of Education (DOE) - Coordinator, Office of Special Services, 624-6650*

**Please see the following findings for other issues relating to this program.**

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# REHABILITATION SERVICES –
# VOCATIONAL REHABILITATION GRANTS TO STATES

**(06-26)**

**Finding Title:** Inadequate internal controls over client service payments
**Prior Year Finding:** 05-69
**CFDA:** 84.126
**CFDA Title:** Rehabilitation Services – Vocational Rehabilitation Grants to States
**Federal Award:** H126A050085E; H126A050026E; H126A060085E; H126A060026E
**Federal Agency:** U.S. Department of Education
**State Department:** Labor (DOL)
**Bureau:** Bureau of Rehabilitation Services

**Finding Type:** Internal control

**Compliance Area:** Allowable costs/Cost principles; Activities allowed or unallowed

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87); State Administered Programs – Fiscal Control and Fund Accounting Procedures (34 CFR §76.702)

**Condition:** The Department does not have adequate internal controls in place to ensure compliance with federal allowability requirements. Rehabilitation counselors interview applicants, determine and verify applicant eligibility, establish individualized plans for employment, authorize, initiate and approve payments, document consideration of comparable services, and determine when applicant participation should terminate without substantive review or approval.

**Context:** Total client services payments totaled $8.8 million for fiscal year 2006. There was no indication that twenty-one (21) client expenditures in our sample were subject to adequate supervisory review or approval.

**Cause:** Lack of segregation of duties. The Department's automated case management system (ORSIS) allows rehabilitation counselors to initiate, authorize, and approve payments. Checks are generated via an interface with the State's accounting system without additional substantive approval. ORSIS does not limit the expenditure amount, require a second approval from supervisory level personnel or restrict the type of access available to rehabilitation counselors.

**Effect:** Potential for inappropriate payments

**Recommendation:** We recommend that the Department establish internal control procedures to ensure independent approvals of case services expenditures and implement computer controls

that would limit the ability of a system user to initiate, authorize and approve the payment. We further recommend that the Department periodically review the work done by the rehabilitation counselors to ensure compliance with program requirements.

**Management Response/Corrective Action Plan:** *We agree with the finding.*

***Bureau of Rehab Services (BRS) Corrective Action:*** *As a result of State Audit findings, in March 2006 BRS implemented a process that requires two different signatures to authorize and approve payments and that must be recorded on each R-20. To further insure the review and reconciliation of client payments, the counselor authorizes payments, and an independent review by a second party (a peer, support staff or supervisor) is required to process the transaction. Staff members were trained in this new procedure and it was implemented in the last two months of fiscal year 2006. As result, this had minimal impact on 2006 financial transactions.*

*This fall, BRS is reinforcing through staff training that the second signature is not just proforma, but serves as a check that the transaction is consistent with program and case service procurement procedures. BRS staff will receive training to reinforce their role in reviewing authorizations prior to payment and bringing to the attention of the supervisor any authorization that causes any concern.*

*Please note that BRS is in the process of implementing a revised case review process. Case review process is a critical element in monitoring the purchase of goods and services for eligible clients as part of an Individual Plan for Employment to assure that this procedure is being followed.*

***Contacts:*** *Penny Plourde, – Director, Division of Vocational-Rehab Services, 623-7943*
*Anke Siem, DAFS, SESC, Rehab Services Manager, 623-6722*

**(06-27)**

**Finding Title:** Insufficient controls over cash management
**Prior Year Finding:** 05-12
**CFDA:** 84.126
**CFDA Title:** Rehabilitation Services – Vocational Rehabilitation Grants to States
**Federal Award:** H126A050026E, H126A050085E, H126A060026E, H126A060085E
**Federal Agency:** U.S. Department of Education
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Security and Employment Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Cash management

# REHABILITATION SERVICES – VOCATIONAL REHABILITATION GRANTS TO STATES

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement (31 CFR §205 Subpart B)

**Condition:** The Department did not have adequate procedures in place to ensure compliance with federal cash management requirements. The Department did not minimize the time between the drawdown of federal funds from the federal government and their disbursement for program purposes. A new method for computing federal cash draws was implemented by the Department in May of 2006 and resulted in excessive federal cash-on-hand.

Prior to May 2006, the Department did not draw sufficient federal cash to cover program expenditures. The method used by the Department to compute estimated cash needs was inaccurate.

**Context:** The Department held excessive federal cash for two of the twelve months reviewed.

**Cause:**
- Overly complex accounting structure used to track grant transactions
- Incomplete written policies, procedures and documentation
- Inadequate review and reconciliation procedures
- Staff turnover and incomplete training of replacement personnel
- The internal cost accounting system is not programmed to correctly identify specific grant expenditures

**Effect:**
- Non-compliance with cash management requirements
- Possible future questioned costs

**Recommendation:** We recommend that the Department implement the following:
- Procedures to enable their cost accounting system to identify specific program expenditures.
- Procedures to ensure that federal cash is not drawn more than seven business days in advance of actual program expenditures.

**Management Response/Corrective Action Plan:** *We agree with this finding.*

*Cash management procedures were inadequate during the first part of fiscal year 2006. We changed the cash drawdown procedures during the latter part of fiscal year 2006. Cash draw downs are now based on actual expenditures and the projection of next seven business days.*

*The Department of Labor currently uses the MFASIS Warehouse to query for the expenditures for each program that are needed to draw from the Payment Management System (PMS.) The Department implemented a procedure of reviewing all fund ledgers to ensure that their costs are captured during this drawdown process. We feel with the implementation of AdvantageME, the Department will have expenditures posted on a daily basis allowing us to request funds timely and accurately to cover expenditures.*

***Contact:*** *Dennis Corliss, DAFS, SESC - Director, 623-6701*

**(06-28)**

**Finding Title:** Inadequate internal controls and noncompliance with program eligibility requirements
**Prior Year Finding:** 05-71
**CFDA:** 84.126
**CFDA Title:** Rehabilitation Services – Vocational Rehabilitation Grants to States
**Federal Award:** #H126A050085E; H126A050026E; H126A060085E; H126A060026E
**Federal Agency:** U.S. Department of Education
**State Department:** Labor (DOL)
**Bureau:** Bureau of Rehabilitation Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Eligibility

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Vocational Rehabilitation and Other Rehabilitation Services (29 USC §722); The State vocational rehabilitation services program (34 CFR §361.41, .42, and .47)

**Condition:** Controls were not adequate to ensure that the Department completed eligibility determinations within the required time limits. In addition, documentation supporting the verification of qualifying disabilities was not always maintained. Furthermore, there was only limited supervisory review of client eligibility determinations.

**Context:**
- Eligibility determinations were not completed within the required time frame in fifteen (25%) of the sixty cases reviewed
- Documentation to adequately support the independent verification of a qualifying disability was unavailable in three of the sixty cases reviewed

**Cause:** Inadequate review procedures.

**Effect:**
- Noncompliance with federal regulations
- Possible future questioned costs

**Recommendation:** We recommend that the Department:
- Implement procedures to ensure timely eligibility determinations.
- Establish procedures to ensure that documentation to support client eligibility is consistently maintained for all clients.
- Establish procedures to ensure that client eligibility determinations are subject to adequate supervisory review.

**Management Response/Corrective Action Plan:** *We agree with the finding.*

*The 2005 RSA (Rehab Services Administration) Federal Section 107 review findings required a corrective action plan to address the specific actions that BRS will take to ensure applicant's eligibility is determined in 60 days or that the agency and the individual agree to a specific extension of time. As result of this finding, the BRS case management system (ORSIS) was modified to provide a 45 day reminder for counselors that eligibility deadline is close. The 45 day reminder includes a special indicator that there has been an agreement for an extension of time to determined eligibility. All DVR counselors' performance reviews include an expectation that eligibility determinations meet the 60 day requirement or there is documentation in the case record for an agreement for an extension of time. Supervisors review cases that have exceeded the 60 day requirement to determine if there has been an agreement for an extension or to take other immediate action as warranted.*

*ORSIS' "time as applicant" report was available in March 2006 to assist staff in identifying applicants with eligibility determinations approaching 60 days. During the last two months of 2006, regional staff received training in the use of the new report plus use of the special indicator to designate individuals who agree to an extension of time. The special indicator now generates a case note that there is an agreement to the extension of time.*

*The response to RSA on the Section 107 Corrective Action Plan is on file with the Office of the State Controller. This corrective action plan shows that the implementation of the new reports and training of staff took place during the final months of fiscal year 2006; and as a result had minimal impact on the 2006 cases.*

***Contact:*** *Anke Siem, DAFS, SESC - Rehab Services Manager, 623-6722*

# REHABILITATION SERVICES –
# VOCATIONAL REHABILITATION GRANTS TO STATES

**(06-29)**

**Finding Title:** Inadequate controls over requirements relating to program income
**Prior Year Finding:** 05-72
**CFDA:** 84.126
**CFDA Title:** Rehabilitation Services – Vocational Rehabilitation Grants to States
**Federal Award:** H126A050085E; H126A050026E; H126A060085E; H126A060026E
**Federal Agency:** U.S. Department of Education
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Security and Employment Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Program income

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:**
- Vocational Rehabilitation and Other Rehabilitation Services – Expenditure of Certain Amounts (29 USC §728)
- The State Vocational Rehabilitation Services Program – Program Income (34 CFR §361.63)
- The State Vocational Rehabilitation Services Program – Obligation of Federal Funds and Program Income (34 CFR §361.64)
- Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Retention and Access Requirements for Records (34 CFR §80.42)
- State Administered Programs – Fiscal Control and Fund Accounting Procedures (34 CFR §76.702)

**Condition:** The Department did not have adequate internal controls over the computation of claims submitted to the Social Security Administration (SSA) for program income, obligation of the related funds within the period of availability, and the reporting of undisbursed program income. In addition, client cost information used to claim program income from the SSA was not always retained.

**Context:** This is a systemic problem.

**Cause:**
- Inadequate review and reconciliations
- Misunderstanding of record retention requirements
- Inadequate accounting procedures

**Effect:**
- Inaccurate financial reporting
- Loss of revenue

**Recommendation:** We recommend that the Department:
- Document and retain program income information in compliance with federal regulations.
- Implement accounting procedures to ensure proper accounting for undisbursed program income.
- Implement procedures to ensure that federal requirements for the obligation of program income are met.

**Management Response/Corrective Action Plan:** *We disagree with this finding for the following reason:*

*We currently adhere to federal (RSA) regulations that require us to maintain paper files on all successful closures for three years beyond the closure date. SSA-VR Reimbursement claims are sometimes submitted for cases that have been closed well beyond this timeframe as evidenced in the audit process when it was found that several paper files, that had been selected for review, had been destroyed (one had been closed for ten years). We maintain electronic files for at least five years beyond the closure date and usually longer. When SSA performs validation reviews, to verify appropriateness of claims submitted for payment, they accept electronic verification of case costs for cases that were closed beyond the RSA's timeframe for record retention.*

*As about half of the approximately 3000 clients with cases closed after plan development are SSDI and or SSI beneficiaries, there is the potential of a claim on any of these cases. RSA and SSA have both agreed that maintaining the paper files for an indefinite period of time would constitute an undue burden on the States and, therefore, only require us to retain these records for three years.*

*The accounting procedures are accurate; program income is tracked monthly, with a quarterly summary that is prepared for the SF-269 report. There was no loss of revenue. The period of availability is two years, expenditures occur in a first in, first out method, and income is disbursed within that time frame.*

***Contact:*** *Anke Siem, DAFS, SESC - Rehab Services Manager, 623-6722*

***Auditor's Conclusion:*** While we agree that program income was received during the year for some cases that had been closed for many years prior to our audit period, federal regulations ((34 CFR §80.42 (c)(3)) state that the retention period for the records on program income starts from the end of the grantee's fiscal year in which the income is earned. We were unable to verify seven of twenty sampled claims submitted to SSA for program income because the case records had been destroyed.

Our testing revealed that accounting procedures during our audit period did not allow the Department to accurately report undisbursed program income, nor to adequately monitor program income activity to ensure that funds are obligated in accordance with federal regulations.

The finding remains as stated.

**(06-30)**

**Finding Title:** Inadequate internal controls and noncompliance with reporting requirements (SF-269)
**Prior Year Finding:** 05-13
**CFDA:** 84.126
**CFDA Title:** Rehabilitation Services – Vocational Rehabilitation Grants to States
**Federal Award:** H126A050026E, H126A050085E, H126A060026D, H126A060085D
**Federal Agency:** U.S. Department of Education
**State Department:** Administrative and Financial Services
**Bureau:** Security and Employment Service Center (SESC)

**Finding Type:** Internal control and compliance

**Compliance Area:** Reporting

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments - Standards for Financial Management Systems (34 CFR §80.20)

**Condition:** The Vocational Rehabilitation program does not have adequate internal controls in place to ensure accurate reporting on the Financial Status Report (SF-269). For the quarter ending June 30, 2006, we noted the following inaccuracies:

- The SF-269 included expenditures of other grants
- Reported amounts were not adequately supported or calculated
- The total amount reported for indirect costs only included the federal share and omitted the State's share of these costs
- The reported amount for the federal share of unliquidated obligation incorrectly included the State share

Additionally, for the quarters ending September 30, 2005 and 2006:

- Reported amounts were overstated and differed from accounting records by approximately $1.1 million and $384,000, respectively

- Undisbursed program income was not reported. The amounts that should have been reported were $768,007 and $1,348,022, respectively

**Context:** This is a systemic problem.

**Cause:**
- Overly complex accounting structure
- Inadequate supporting documentation
- Misunderstanding of reporting instructions

**Effect:** Non-compliance with federal financial reporting requirements

**Recommendation:** We recommend that the Department implement adequate procedures to ensure accurate financial reporting. We further recommend that the Department maintain documentation supporting financial reports in accordance with federal requirements.

**Management Response/Corrective Action Plan:** *We concur partially with this finding.*

*We do not agree with the statement that the SF-269 report included expenditures of other grants. The reason for inclusion of certain expenditures is based on data warehouse queries and the B-919 cash report analysis. We revised the Reporting Org chart for BRS in fiscal year 2006 to eliminate duplications and inactive accounts. As a result, a small number of Reporting Orgs that were eliminated still had expenditures posted to them during the last quarter in fiscal year 2006. These Reporting Orgs belonged to the major grant and were therefore included in the SF269 report. In the future this issue will not arise due to the Reporting Org cleanup.*

*We agree with the following statements:*

*Reported amounts were not adequately supported refers to the overstatement of unliquidated obligations on the DVR SF269. This was a one time error of picking up the wrong amount from ORSIS data which overstated the amount by $116,276. This is considered a one-time occurrence.*

*Regarding the State and Federal share of unliquidated obligations and indirect costs not being reported correctly, the State and Federal share will be broken down on two separate lines on future reports and show the State share and the Federal share.*

*We implemented the following procedures during federal fiscal year 2006: Federal reports are reviewed by the program manager as a secondary review to ensure accuracy.*

***Contact****: Anke Siem, DAFS, SESC - Rehab Services Manager, 623-6722*
***Auditor's Conclusion***: The Department included expenditures that are not funded by the Vocational Rehabilitation (CFDA #84.126) grant on its SF-269 report for the quarter ending June

30, 2006. These non-major grant expenditures have their own funding sources separate from the Vocational Rehabilitation grant. The finding remains as stated.

**Please see the following findings for other issues relating to this program.**

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# TWENTY-FIRST CENTURY
# COMMUNITY LEARNING CENTERS

**Please see the following findings for issues relating to this program.**

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**(06-31)**

**Finding:** C1132 COM 1
**Finding Title:** State payroll costs charged to the Aging Cluster are not supported in accordance with federal requirements
**Prior Year Finding:** No
**CFDA:** 93.044, 93.045, 93.053
**CFDA Title:** Aging Cluster
**Federal Award:** 06AAMET3SP, 05AAMET3SP
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)

**Bureau:** Office of Elder Services (OES)

**Finding Type:** Internal control and compliance

**Compliance Area:** Allowable costs/Cost principles

**Known Questioned Cost:** Undeterminable

**Likely Questioned Cost:** Undeterminable

**Criteria:** Costs Principles for State, Local and Indian Tribal Government (OMB Circular A-87, Attachment B.8.h.(3) and (4); Attachment A, paragraph C.1.a and C.3.a)

**Condition:** The Department charged payroll costs of $411,858 to the Aging Cluster. The charge is not supported by time distributions prepared in accordance with federal cost guidance. Not all State employee costs charged to the Aging Cluster are allocable and reasonable in relation to the overall duties of the individuals.

**Context:** The Office of Elder Services has no system in place to equitably distribute payroll costs.

**Cause:** OES personnel were not aware of the time distribution requirements of OMB A-87.

**Effect:** The federal program may have been overcharged.

**Recommendation:** We recommend that the Department develop procedures that will ensure compliance with federal cost principles.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with the finding recommendation but disagrees with the undeterminable amount of questioned costs.*

*DHHS does agree that in order to be allowable costs, compensation for personal services must be documented in accordance with OMB Circular A-87. The Office of Elder Services expended*

*in excess of the limit of $500,000 in allowable administrative costs not including the compensation for personal services. Those costs were not coded to the grant and thus not audited. During fiscal year 2008, DHHS will be working on developing written procedures that will ensure compliance of federal cost principles.*

***Contact:*** *Diana Scully, DHHS - Office of Elder Services (OES), Director, 287-9200*

***Auditor's Conclusion:*** We believe the program may have been overcharged. The audit revealed that the personnel hours charged to the program for specific job duties did not appear to be reasonable and allocable.

The finding remains as stated.

**(06-32)**

**Finding Title:** Noncompliance with cash management requirements
**Prior Year Finding:** No
**CFDA:** 93.044, 93.045, 93.053
**CFDA Title:** Aging Cluster
**Federal Award:** 06AAMET3SP, 05AAMET3SP, 06AAMENSIP, 05AAMENSIP
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Health and Human Services Service Center

**Finding Type:** Internal controls and compliance

**Compliance Area:** Cash management

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Rules and Procedures for Efficient Federal State Funds Transfers – Rules Applicable to Federal Assistance Programs Not Included in a Treasury State Agreement (31 CFR §205 Subpart B)

**Condition:** The Department did not minimize the time between the drawdown of federal funds and the disbursement for federal program purposes in accordance with federal cash management requirements.

**Context:** Five of ten items tested included cash balances that were held from 14 to 46 days before disbursement of the funds.

**Cause:** The typical contract includes approximately 18 funding sources. When issues occur with one or more of the funding sources, the payment is delayed until the issue is resolved. Because

program funds are drawn in anticipation of the payment, any delay will result in federal cash being held in excess of immediate need.

**Effect**: Federal cash was held longer than allowed by federal cash management requirements.

**Recommendation:** We recommend that the Department delay the draw of federal funds until any issues related to the payment are resolved.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services and The Department of Administrative and Financial Services agree with this finding.*

*The DAFS (DHHS) Service Center has taken steps to comply with cash management requirements. This finding resulted when one particular line of coding caused the payment to be held awaiting resolution. Going forward, whenever the situation arises, the Senior Staff Accountant will process the invoice without the problem amount, resulting in compliance with cash management rules.*

***Contact:*** *Matthew Halloran, DAFS - DHHS Service Center - Managing Staff Accountant, 287-5498*

**(06-33)**

**Finding Title:** Inadequate internal control resulted in erroneous financial reports to the federal government
**Prior Year Finding:** No
**CFDA:** 93.044, 93.045
**CFDA Title:** Aging Cluster
**Federal Award:** 06AAMET3SP, 05AAMET3SP
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of Elder Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Reporting

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments – Standards for Financial Management Systems (45 CFR §92.20), Administration on Aging Fiscal Guide

**Condition:** Internal control was not adequate to ensure accurate financial reporting, resulting in

erroneous financial reports being transmitted to the federal government. For the six month period examined, October 1, 2005 through March 31, 2006, the following exceptions were noted:

- Federal outlays were understated by $252,405
- The recipient's share of outlays was understated by $695,123
- Program income information was misclassified and incomplete

**Context:** This is a systemic problem.

**Cause:**

- Reporting forms utilized by the Area Agencies on Aging for reporting program income information are not standardized
- Federal outlays were incorrectly based on amounts reported by Area Agencies on Aging, rather than State disbursement records

**Effect**: The amounts reported on the Financial Status Report were incorrect.

**Recommendation:** We recommend that the Department:

- Redesign the quarterly reporting format utilized by Area Agencies on Aging to ensure consistent, complete and accurate reporting
- The program has already changed its procedure to reflect federal share of outlays based upon disbursements from the State agency to the area agencies

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*Department personnel will meet with the Area Agencies on Aging by August 31, 2007 for the purpose of reviewing the current methods of reporting financial information. Based upon those meetings the Department will modify reporting requirements to meet federal compliance areas.*

***Contact:*** *Matthew Halloran, DAFS, DHHS Service Center - Managing Staff Accountant, 287-5498*

**(06-34)**

**Finding Title:** Inadequate internal control over and noncompliance with subrecipient monitoring requirements
**Prior Year Finding:** No
**CFDA:** 93.044, 93.045, 93.053
**CFDA Title:** Aging Cluster
**Federal Award:** 06AAMET3SP, 05AAMET3SP, 06AAMENSIP, 05AAMENSIP
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of Elder Services

# AGING CLUSTER

**Finding Type:** Internal control and compliance

**Compliance Area:** Subrecipient monitoring

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local and Tribal Governments – Subgrants (45 CFR §92.37); Administration on Aging Fiscal Guide

**Condition:** Internal control procedures were not adequate to ensure compliance with subrecipient monitoring requirements. We noted the following:

- Basic award information on contracts with Area Agencies on Aging was incomplete
- Subrecipient cash balances were not monitored
- Program income information was not monitored
- Eligibility determinations for congregate meals were not tested
- Actual subrecipient expenditures were not reviewed to ensure that matching and earmarking requirements were met
- The Department did not ensure that the Area Agencies on Aging monitored their subgrantees

**Context:** This was a systemic problem. Approximately 90% of federal funds are passed through to subrecipients.

**Cause:**

- Contracts were not adequately reviewed to ensure that basic award information was included
- Monitoring of congregate meal eligibility was not conducted
- Subrecipient financial reports are not designed to ensure compliance with cash management, program income, or matching and earmarking requirements. These reports were not accurate, timely or reliable.

**Effect:** Possible non-compliance with federal requirements by Area Agencies on Aging.

**Recommendation**: We recommend that the Department implement monitoring procedures to ensure that subrecipients comply with federal requirements.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*During fiscal year 2008, the Office of Elder Service will be reviewing the conditions noted in this audit finding. OES along with the Service Center will be refining their monitoring procedures to*

*ensure that subrecipients comply with federal requirements. Implementation of the revised monitoring procedures is targeted by July 2008.*

***Contact:*** *Diana Scully, DHHS – OES, Director, 287-9200*

**(06-35)**

**Finding Title:** Inadequate internal control over the equitable distribution of cash received in lieu of commodities
**Prior Year Finding:** No
**CFDA:** 93.053
**CFDA Title:** Aging Cluster
**Federal Award:** 06AAMENSIP, 05AAMENSIP
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of Elder Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Special tests and provisions

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Nutrition Services Incentive Program (42 USC §3030a(d)(2))

**Condition:** Controls are inadequate to ensure the accuracy of meal counts reported by the Area Agencies on Aging (AAAs). The Department does not investigate significant month to month variances in meal counts reported by the AAAs.

**Context:** This is a systemic problem. The Department and the federal Administration on Aging use the meal count information for overall monitoring purposes and to perform the allocation of Nutrition Services Incentive Program (NSIP) funds.

**Cause:** Unknown

**Effect:** The interstate and intrastate allocation of NSIP funds may not be accurate.

**Recommendation:** We recommend that the Department investigate significant month-to-month variations in meal counts.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*The quarterly Program Report will be revised by October 1, 2007 to include explanations about significant variances in meal counts. The Office of Elder Services will look at meal count variances in previous years to define a "significant" change.*

***Contact****: Diana Scully, DHHS – OES, Director, 287-9200*

**Please see the following findings for other issues relating to this program.**

**(06-17)** ***page E-53***

**(06-99)** ***page E-208***

**(06-101)** ***page E-211***

# IMMUNIZATION GRANTS

**(06-36)**

**Finding Title:** Expenditures overstated and reports submitted late
**Prior Year Finding:** 05-16
**CFDA:** 93.268
**CFDA Title:** Immunization Grants
**Federal Award:** H23/CCH122558
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Health and Human Services Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Reporting

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments (45 CFR §92.20, .40(b) and .41)

**Condition:** The Immunization program does not have adequate controls in place to prepare accurate federal expenditure reports (SF-269). The program reported several incorrect amounts that overstated program expenditures by a net amount of $150,881 for the year ended December 31, 2005. Financial and performance reports were also submitted past their deadline of 90 days after the close of the grant year.

**Context:** This is a systemic problem. Each of the four SF-269 reports submitted during fiscal year 2006 contained errors.

**Cause:**
- Inadequate controls
- Staff turnover

**Effect:** Program expenditures for the 2005 grant year were overstated, causing the unobligated balance at the end of the year to be understated. Any unobligated balance at the end of the grant year reduces the amount of the subsequent grant award.

**Recommendation:** We recommend that the Immunization Program implement internal controls to ensure accurate and timely financial reports.

**Management Response/Corrective Action Plan:** *The Departments of Health and Human Services and Administrative and Financial Services agree with this finding.*

*As stated in last year's finding, the staff contacted the federal Center for Disease Control for direction on handling outstanding encumbrances. As a result, it is no longer a practice to include outstanding encumbrances in the financial status reports unless program staff receives prior, written approval from the federal agency authorizing expenditures to occur more than ninety days after the grant period.*

*During fiscal year 2007, the internal controls for reviewing the federal financial status report were strengthened. A checklist was created for both the preparer and reviewer to use as tools for a thorough review of the federal report (checklist implementation date August 2007).*

***Contact:** Heidi Ellis, DAFS, DHHS Service Center - Senior Staff Accountant, 287-1841*

**(06-37)**

**Finding Title:** Inadequate internal controls and noncompliance with SEFA reporting requirements
**Prior Year Finding:** No
**CFDA:** 93.268, 93.558, 93.563, 93.575, 93.596, 93.659, 93.775, 93.777, 93.778
**CFDA Title:** Immunization Grants
Temporary Assistance for Needy Families
Child Support Enforcement
Child Care Cluster
Adoption Assistance
Medicaid Cluster
**Federal Award:** H23/CCH122558, METANF06, 0604ME4004, G-0501MECCDF, G-0601MECCDF, G-0601ME1407, 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Health and Human Services Service Center, Office of the State Controller

**Finding Type:** Internal control and compliance

**Compliance Area:** N/A

**Known Questioned Cost:** N/A

**Likely Questioned Cost:** N/A

**Criteria:** Audits of States, Local Governments, and Nonprofit Organizations – Schedule of Expenditures of Federal Awards (OMB Circular A-133 §310(b))

**Condition:** The Department did not have adequate internal controls in place to ensure that it correctly reported expenditures for the Schedule of Expenditures of Federal Awards (SEFA) for six Department of Health and Human Services programs.

# IMMUNIZATION GRANTS

**Context:** Initial SEFA expenditures were understated as follows:

- Temporary Assistance for Needy Families - $6.3 million
- Child Support Enforcement - $1.1 million
- Child Care Cluster - $2.9 million
- Adoption Assistance - $11.6 million
- Medicaid Cluster - $42 million

Additionally, while the amount reported on the draft SEFA for the Immunization Program was essentially correct, the information used to compile the SEFA included two significant off-setting errors.

**Cause:**

- Insufficient understanding of how to appropriately compile SEFA expenditures
- Inadequate oversight
- Unrelated financial statement adjustments were incorrectly included in draft SEFA amounts for certain programs
- The draft SEFA was not updated after revised expenditure reports were submitted to the federal government
- Vaccines that were distributed and purchased with State funds were included in the draft SEFA

**Effect:** Incorrect SEFA

**Recommendation:** We recommend that the Department develop procedures to ensure that federal expenditures are correctly reported on the SEFA.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services and the Department of Administrative and Financial Services agree with this finding.*

*The SEFA (Schedule of Expenditures of Federal Awards ) report for fiscal year 2006 was a learning experience for many completing the SEFA for the first time; of the eight individuals working on the SEFA five were new to the process. After going through the process and reviewing the audit findings there is a much better understanding of SEFA reporting.*

*Beginning with fiscal year 2007 SEFA all program accounting staff have been given the total MFASIS (Maine Financial & Administrative Statewide Information System) expenditures by program which ties to the total agency expenditure report sent out by the Office of the State Controller. Accounting staff have been instructed to balance the program Financial Status Reports to this figure and indicate reasons for variances. This procedure should assure a more accurate SEFA reporting. Notification will be sent to all accounting staff to inform the Financial Analyst responsible for SEFA reporting of any revisions to program Financial Status Reports.*

***Contact:*** *Donna Wheeler, DAFS, DHHS Service Center - Financial Analyst, 287-1860*

*OSC has procedures in place to address agency filing issues from a number of standpoints. Our annual SEFA reporting instruction package includes detailed instructions for completing the SEFA, information on new and deleted programs and program name changes, and a reconciliation template that automatically removes transfers and donated items from totals reported in MFASIS, which includes definitions of transfers and pass-thrus in order to avoid confusion. Meetings are held with agency accountants needing assistance with preparing the SEFA, and we stress the importance of reconciling all programs back to MFASIS totals and reviewing transfers and pass-through amounts with other agencies to agency management. For fiscal year 2007 reporting, we plan on holding a meeting with program accountants and the person responsible for preparing the SEFA in order to best clarify what expenses ought to be reported as expenditures. We have also updated the template with 3 cautions and pop-up comments when pass-thrus or transfers are identified.*

***Contact**: April Newman, DAFS - OSC, Financial Management Coordinator, 626-8436*

**(06-38)**

**Finding Title:** Inadequate monitoring procedures
**Prior Year Finding:** 05-49
**CFDA:** 93.268
**CFDA Title:** Immunization Grants
**Federal Award:** H23/CCH122558
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Maine Center for Disease Control and Prevention

**Finding Type:** Internal control and compliance

**Compliance Area:** Special tests and provisions

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (45 CFR §92.40(a))

**Condition:** The Immunization program could not demonstrate that all monitoring procedures were completed. Also, the program did not monitor two contracts that were not included in its database.

**Context:** We tested the program's monitoring of 60 for-profit providers. Two grant contracts were not signed by a licensed medical provider; two contracts were not logged into the database, and were not monitored; seven field visits were not documented; one field visit did not address eligibility.

**Cause:**

- Insufficient training on program requirements
- Implementation of a new software application
- Failure to print and retain hard copy documentation

**Effect:** Inadequate monitoring does not ensure that providers appropriately manage vaccine inventories.

**Recommendation:** We recommend that the Immunization program provide further training, emphasizing the need for documentation for the Immunization staff and public health nurses who perform site visits.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services, Immunization Program agrees with this finding.*

*Maine CDC has been working to strengthen the internal structure in the Immunization program along with implementing the new Immpact system. The Immpact system is the State immunization registry system that was rolled out in December 2006 and will enhance our monitoring efforts. This new system is not just for recording shots delivered but also used for vaccine management. The Immpact system will be fully functioning by June 2007.*

***Contact:*** *Shawn Box, DHHS - Health Program Manager, 287-3746*

**(06-39)**

**Finding Title:** Monitoring certification not obtained
**Prior Year Finding:** 05-48
**CFDA:** 93.268
**CFDA Title:** Immunization Grants
**Federal Award:** H23/CCH122558
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Maine Center for Disease Control and Prevention

**Finding Type:** Internal control and compliance

**Compliance Area:** Special tests and provisions

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (45 CFR §92.20(b)(3))

# IMMUNIZATION GRANTS

**Condition:** The Immunization program did not have adequate controls to monitor the third party vendor holding the vaccine inventory in order to safeguard against theft, expiration, or improper temperature. The contract agreement requires an annual certification from the third party's independent certified public accountant. The Immunization program did not obtain and review the required annual certification from its contractor.

**Context:** No controls existed to ensure that an annual certification was obtained by the vendor or reviewed by Immunization program personnel.

**Cause:** The third party vendor did not have this audit performed as standard practice. No follow up was performed by program personnel because the vendor no longer provided services, and a new vendor was contracted. The new vendor has the certification as a standard practice, but would not have the audit done until the end of the calendar year.

**Effect:** Potential loss of vaccines due to theft, expiration or improper temperature.

**Recommendation:** We recommend that the Immunization program obtain the contractor's annual certification from the third party's independent certified public accountant.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services, Immunization Program agrees with this finding.*

*As stated within the finding, the new vendor has the certification. The Federal CDC is in the process of implementing a nationwide, central third party distribution system which they will be monitoring. The Maine Immunization Program will be in this new distribution system in June 2007.*

***Contact:*** *Chris Zukas-Lessard, DHHS - Maine Center for Disease Control and Prevention (CDC), Deputy Director, 287-5178*

**Please see the following findings for other issues relating to this program.**

**(06-99)** ***page E-208***

**(06-101)** ***page E-211***

# CDC AND PREVENTION- INVESTIGATIONS AND TECHNICAL ASSISTANCE

**(06-40)**

**Finding Title:** Inadequate procedures to ensure compliance with federal cost principles related to personal services costs
**Prior Year Finding:** No
**CFDA:** 93.283
**CFDA Title:** CDC and Prevention: Investigations & Technical Assistance
**Federal Award:** CCU116972, CCU123178, CCU122825, CCU122057, CCU122452, CCU123809
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Maine Center for Disease Control and Prevention (MCDC)

**Finding Type:** Internal control and compliance

**Compliance Area:** Allowable costs /Cost principles

**Known Questioned Cost:** Undeterminable

**Likely Questioned Cost:** Undeterminable

**Criteria:** Cost Principles for State, Local and Indian Tribal Governments, Selected Items of Cost, Compensation for Personal Services, Support of Salaries and Wages (OMB A-87 Attachment B Section 8 Paragraph b)

**Condition:** Procedures are not adequate to ensure compliance with federal cost principles. The Department did not provide the following:

- Quarterly reconciliations of budgeted to actual time for employees who worked on multiple programs
- Certifications for employees who worked solely on MCDC Prevention, Investigations and Technical Assistance programs

**Context:** This is a systemic problem.

**Cause:** A lack of understanding of the documentation necessary to support payroll charges to federal programs.

**Effect:** Potential questioned costs

**Recommendation:** We recommend that the Department:

- Provide a reconciliation of budgeted to actual time for employees who work on multiple programs
- Provide semi-annual certifications for employees who work solely on Investigations and Technical Assistance programs

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*The Office of Center for Disease Control and Prevention will develop and disseminate a policy by September 15, 2007 to ensure compliance.*

***Contact****: Chris Zukas-Lessard, DHHS - CDC, Deputy Director, 287-5179*

**Please see the following findings for other issues relating to this program.**

**(06-99)** ***page E-208***

**(06-100)** ***page E-210***

**(06-101)** ***page E-211***

**(06-41)**

**Finding Title:** Inadequate procedures over payments to employees who are also program participants
**Prior Year Finding:** No
**CFDA:** 93.558
**CFDA Title:** Temporary Assistance for Needy Families (TANF)
**Federal Award:** ME TANF06
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of Integrated Access and Support

**Finding Type:** Internal control and compliance

**Compliance area:** Allowable costs/Cost principles

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87)

**Condition:** The TANF program did not have adequate controls in place to ensure that benefit payments to employees who are also program recipients were proper. The TANF program issued a second clothing allowance payment upon the request of an employee/recipient, a DHHS eligibility worker, without first verifying that a payment had not already been made. As a result, the program made a double payment to the employee/recipient for a clothing allowance.

**Context:** This is a procedural problem. The clothing allowance was a one-time $200 stipend to all TANF recipients that did not require supporting documentation for payment.

**Cause:** The TANF program did not follow established procedures relating to the issuance of a replacement payment.

**Effect:**
- Improper payments
- Potential questioned costs

**Recommendation:** We recommend that the TANF program improve procedures relating to payments to TANF recipients who are also employees. Special attention should be given to benefit payments made to employees with knowledge of and access to benefit systems. Additionally, the Department should recover the duplicate payment from the employee.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*To improve procedures relating to payments to TANF (Temporary Assistance for Needy Families) recipients who are also employees, Supervisors have been instructed to assign these cases to themselves in a lock-down assignment mode. When cases are redistributed, the locked-down case will remain with the Supervisor.*

*An overpayment has been established on the employee in the amount of $200. The case has been referred to the Fraud, Investigation, and Recover Unit for collection of the overpayment.*

***Contact:** Rose Masure, DHHS - Director of Policy and Programs, 287-3104*

**(06-42)**

**Finding Title:** TANF grant overdrawn
**Prior Year Finding:** No
**CFDA:** 93.558
**CFDA Title:** Temporary Assistance for Needy Families (TANF)
**Federal Award:** ME TANF06
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Health and Human Services Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Allowable costs/Cost principles, Cash management

**Known Questioned Cost:** $929,000

**Likely Questioned Cost:** $929,000

**Criteria:** Rules and Procedures for Efficient Federal-State Funds Transfers (31 CFR §205)

**Condition:** Control procedures were not sufficient to ensure that the TANF program drew only the funds required for their reported expenditures.

**Context:** This is a systemic problem. TANF incorrectly drew down federal funds in excess of reported expenditures by $929,000.

**Cause:** Inadequate accounting procedures associated with the Department of Health and Human Services' cost allocation plan.

**Effect:** Excessive federal funds were drawn and used to pay for an unallowable share of allocated costs.

**Recommendation:** We recommend that the accounting procedures related to the Department of Health and Human Services' cost allocation plan be amended to appropriately charge the TANF program for allocated costs.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*The DHHS cost allocation plan schedules have been amended to reflect the required adjustments, the journals correcting the issue have been processed and the overdrawn funds have been returned to the TANF grant. A revised ACF 196 report will be filed to reflect the corrected expenditure and the corrected federal draw.*

***Contact:*** *Jeff Miller, DHHS Service Center - Managing Staff Accountant, 287-1851*

**(06-43)**

**Finding Title:** Inadequate controls over federal cash management requirements
**Prior Year Finding:** 05-36
**CFDA:** 93.558, 93.575, 93.778, 93.596, 93.775, 93.777
**CFDA Title:** Temporary Assistance for Needy Families
Child Care Cluster
` Medicaid Cluster
**Federal Award:** METANF06, G-0401MECCDF, G-0501MECCDF, 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Health and Human Services Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Cash management

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Rules and Procedures for Efficient Federal - State Funds Transfers - Rules Applicable to Federal Assistance Programs Included in a Treasury-State Agreement (31 CFR §205 Subpart A)

**Condition:** The Department did not have adequate internal controls in place to ensure compliance with the terms of the 2006 Treasury-State Agreement on cash management. Draws of federal cash were both earlier and later than the Agreement allowed. Additionally, the Department could not provide adequate supporting documentation for certain draws.

**Context:** This is a systemic problem.

**Cause:**
- Timing of draws is not based on disbursement dates
- Lack of adequate documentation to support amounts being drawn
- Amounts drawn include adjustments for overall cash position which do not relate to specific program expenditures

**Effect:**
- Insufficient cash for the payment of disbursements
- Excess federal cash on hand could result in an interest liability due the federal government

**Recommendation:** We recommend that the Department:
- Improve grant accountability so that program managers and accountants are able to comply with the terms to the Treasury-State Agreement.
- Consistently maintain adequate documentation to support draws of federal cash.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services and the Department of Administrative and Financial Services agree with this finding.*

*As of July 2007, DHHS Service Center has assigned a financial analyst to oversee all cash management for the Department. This person has met with the Treasurer's Office CMIA (Cash Management Improvement Act ) administrator and has started to implement procedures to limit draws to comply with federal cash management rules.*

***Contact:*** *Charles Woodman, DHHS Service Center - Deputy Director, 287-2572*

**(06-44)**

**Finding Title:** Inaccurate performance reports
**Prior Year Finding:** 05-50
**CFDA:** 93.558
**CFDA Title:** Temporary Assistance for Needy Families
**Federal Award:** ME TANF06
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of Integrated Access and Support

**Finding Type:** Internal control and compliance

**Compliance Area:** Reporting

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Data collection and reporting requirements (45 CFR §265.7)

**Condition:** Controls were not sufficient to ensure accurate reporting on ACF-199 and ACF-209 quarterly performance reports, resulting in submission of inaccurate data. A series of reports provided by the U.S. Department of Health and Human Services indicated significant discrepancies in required performance data.

**Context:** This is a systemic problem. Discrepancies on the performance report for the quarter ending December 2005 included:

- Client employment hours with no indication of earned income
- Clients reported as employed with no recorded work hours
- Unreasonably high work hours for some clients
- Client sanctions with no reported justification
- Grant recipients with no reported benefits paid
- Clients reported as being both married and single

**Cause:** There were problems with system codes and classification of data in the Automated Client Eligibility System (ACES). The data discrepancies resulted from a combination of input and processing errors.

**Effect:** The discrepancies call into question the validity of performance data generated by ACES. Performance reports are used to track significant program attributes including the work participation rate, resulting in possible inaccurate conclusions.

Additionally, the federal government may impose a penalty of four percent of the adjusted State Family Assistance Grant for each quarter a state fails to submit an accurate, complete, or timely report.

**Recommendation:** We recommend that the Temporary Assistance for Needy Families program ensure the accuracy of performance reports prior to submission.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*To ensure accuracy of performance reports prior to submission, Maine has developed a comprehensive corrective action plan, which is on file with the Office of the State Controller. The plan includes safeguards to ensure that correct data is entered into Maine's Automated Client Eligibility System (ACES), mandatory staff training, and new monthly data queries to provide better information for reporting, as well as changes to ACES programming to enable correct data reporting from the system. These changes are expected to be implemented and corrective action completed during fiscal year 2007.*

***Contact:*** *Rose Masure, DHHS - Director of Policy and Programs, 287-3104*

**(06-45)**

**Finding Title:** Reported expenditures and transfers understated
**Prior Year Finding:** 05-18, 05-19
**CFDA:** 93.558
**CFDA Title:** Temporary Assistance for Needy Families (TANF)
**Federal Award:** ME TANF06
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Health and Human Services Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Reporting

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments (45 CFR §92.20); Authority to use portion of grant for other purposes (42 USC §604(d)); Data Collection and Reporting Requirements (45 CFR §265)

**Condition:** Controls were not sufficient to accurately report grant expenditures and transfers to other grants. Reported federal expenditures were understated by $8 million. Additionally, eight of ten transfers of TANF funds to the Social Services Block Grant (SSBG) were not reported in the ACF-196 financial report for the quarter ending September 30, 2005.

**Context:** This is a systemic problem. Three quarterly reports filed in fiscal year 2006 contained expenditure reporting errors; SSBG transfers for one quarter were inaccurately reported.

**Cause:**
- Inadequate internal controls
- Staff turnover

**Effect:** The financial reports are inaccurate and could mislead their users.

**Recommendation:** We recommend that the TANF program improve its procedures to accurately report transfers and expenditures.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services and the Department of Administrative and Financial Services agree with this finding.*

*The DHHS Service Center has developed a spreadsheet to track transfers made to the Social Service Block Grant. This spreadsheet has been reconciled on a quarterly basis with MFASIS.*

# TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

*During fiscal year 2008, TANF reports, from prior years, will be revised to incorporate many corrections and omissions.*

*During fiscal year 2008, the DHHS Service Center will be reviewing the internal controls for the TANF program in order to improve the procedures for accurate reporting.*

***Contact:*** *Jeff Miller, DHHS Service Center - Managing Staff Accountant, 287-1851*

**Please see the following findings for other issues relating to this program.**

**(06-07)** ***page E-38***

**(06-08)** ***page E-40***

**(06-37)** ***page E-89***

**(06-99)** ***page E-208***

**(06-100)** ***page E-210***

**(06-101)** ***page E-211***

**(06-46)**

**Finding Title:** Inadequate internal controls and noncompliance with allowable costs requirements
**Prior Year Finding:** 05-23
**CFDA:** 93.563
**CFDA Title:** Child Support Enforcement
**Federal Award:** 0604ME4004
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Health and Human Services Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Allowable cost/Cost principles

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87)

**Condition:** The Child Support Enforcement program did not have adequate procedures in place to ensure that the program paid for only its fair share of legal service costs. The program paid for $104,932 in excess legal costs. However, since DHHS under-reported legal service costs on the OCSE-396A expenditure report, we do not question costs. Since DHHS uses the OCSE-396A report as the basis for the amount retained of the federal share of collections, the program did not retain excessive federal funds.

**Context:** This is a systemic problem.

**Cause:** Inadequate accounting procedures

**Effect:** A disproportionate share of legal costs was charged to the Child Support Enforcement program.

**Recommendation:** We recommend that the Child Support Enforcement program implement adequate accounting procedures to properly transfer program funds to the Office of the Attorney General for allocable legal services. We further recommend that an analysis be performed to determine if other federal programs paid for their fair share of legal costs.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*The Department has developed a written procedure where we use actual amounts instead of estimated amounts (anticipated implementation date October 2007).*

*The process for allocating Attorney General legal costs by program currently consists of moving an estimated amount each pay period based on a percentage derived from time studies and actual expenses for the prior two quarters. On a quarterly basis this amount is reconciled to actual. During fiscal year 2006, quarter ending December 31, 2005, the reconciliation process inadvertently omitted, JV10A81AG06Q2P, in the amount of $106,193.50. This caused the child support program to be overcharged for legal costs. Also a reconciling journal JV10A810AG06Q4R, for the 4th quarter, was not prepared or accepted into MFASIS until 03/21/07, and was not considered in the fiscal year 2006 totals.*

*DHHS is working with the Attorney General's Office to correct this error (anticipated date: August 2007).*

***DAFS, DHHS Service Center Contacts:***
*Donna Wheeler, Financial Analyst, 287-1860*
*Jeff Miller, Managing Staff Accountant, 287-1851*
*Deanna Boynton, Sr. Staff Accountant, 287-5540*

**(06-47)**

**Finding Title:** Incorrect income and expenditures reported
**Prior Year Finding:** 05-24
**CFDA:** 93.563
**CFDA Title:** Child Support Enforcement
**Federal Award:** 0604ME4004
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Health and Human Services Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Reporting

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments (45 CFR §92.20)

**Condition:** Adequate procedures were not in place to ensure that the OCSE-396A expenditure report was accurate. The Child Support Enforcement program reported incorrect information to the federal government and did not report expenditures in accordance with applicable instructions.

# CHILD SUPPORT ENFORCEMENT

**Context:** This is a systemic problem. In the last two quarters of fiscal year 2006, the program underreported the federal share of interest and other income by approximately $9,000. All four quarterly reports filed in fiscal year 2006 underreported the federal share of legal service costs by approximately $256,000. Additionally, in the first two quarters of fiscal year 2006, the program reported certain expenditures on the incorrect line of the OCSE-396A report.

**Cause:**

- Complex reporting process
- Inadequate accounting procedures
- Misinterpretation of reporting instructions

**Effect:** The OCSE-396A report is the basis for the amount of the federal share of collections to be retained. The program understated expenditures for the year in total and therefore retained an insufficient amount of federal funds.

**Recommendation:** We recommend that the Child Support Enforcement program modify the reporting process to ensure that the report contains complete and accurate information. We further recommend that an analysis be performed to determine if other federal programs paid for their fair share of legal services costs.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*Currently, the OCSE-396A quarterly report is completed as part of the DHHS Cost Allocation Plan. Interest income is calculated using a warehouse query. During fiscal year 2006, JV28A0106CSHPL was reported on the OCSE-396A both in quarter 2 and quarter 3 and JV28A0706CSHPL was inadvertently omitted resulting in an understatement of federal share of expenses reported. The June 30, 2007 OCSE-396A will contain the needed adjustment. In the future, when the report is received by the Senior Staff Accountant, a warehouse query will be run to ensure amount of interest income calculated by the DHHS Cost Allocation Plan is correct before report is submitted.*

*Adjustments were completed on the September 30, 2006 OCSE-396A for the four quarters that underreported the federal share of legal services. The Cost Allocation Plan has been adjusted and currently does not include this "other" category.*

*For fiscal year 2007, the DHHS Service Center established a review process for all grant reports. Reports are data entered into the applicable federal reporting system by the Senior Staff Accountant and then are reviewed by the Managing Staff Accountant using the established checklist. Reports are then reviewed by the Director of the DHHS Service Center and signed. This process will help to eliminate data entry errors.*

***DAFS, DHHS Service Center Contacts:***

*Jeff Miller, Managing Staff Accountant, 287-1851*
*Deanna Boynton, Senior Staff Accountant, 287-5540*

**(06-48)**

**Finding Title:** Untimely case record establishment and referral
**Prior Year Finding:** 05-51
**CFDA:** 93.563
**CFDA Title:** Child Support Enforcement
**Federal Award:** 0604ME4004
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of Integrated Access and Support

**Finding Type:** Internal control and compliance

**Compliance Area:** Special tests and provisions

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Establishment of cases and maintenance of case records (45 CFR §303.2); Provision of services in interstate IV-D cases (45 CFR §303.7(b)(2) and (b)(4))

**Condition:** The Child Support Enforcement program did not have adequate internal controls in place to ensure timely action on case records. It did not establish case records within 20 calendar days of receipt of referral or application. Additionally, the program did not timely refer a case to the responding state's interstate central registry.

**Context:** This is a systemic problem. The program did not meet the 20-day time frame in 16 of the 47 cases reviewed. In addition, it did not meet the required time frames regarding referral and providing additional information or notification to the responding state's interstate central registry in one of the ten initiating interstate cases reviewed.

**Cause:**
- Lack of staff
- Lack of sufficient review of case

**Effect:** Failure to timely comply may adversely affect child support collections and case management.

**Recommendation:** We recommend that the Child Support Enforcement program:
- Provide adequate resources to ensure that all case records are established within the required 20-day time frame
- Review each case record thoroughly to meet time frame requirements

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*The Division of Support Enforcement and Recovery used 1580 hours of overtime from April 2005 to October 2005 to initiate cases, thereby eliminating the backlog that caused this finding. Cases are now being opened within the twenty-day time frame. DSER is also working on an interface between the New England Child Support Enforcement System (NECSES) and the Automated Client Eligibility System (ACES) which is projected to be completed in January 2008. Construction of this interface will ensure timely processing of referrals to our program because referrals will be received electronically. Maintaining staffing levels at the authorized levels and timely receipt of these referrals will result in continued compliance with this requirement.*

***Contact:*** *Steve Hussey, DHHS - Support Enforcement and Recovery, Director, 287-2886*

**Please see the following findings for other issues relating to this program.**

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# CCDF CLUSTER
# (CHILD CARE DEVELOPMENT FUND)

**(06-49)**

**Finding Title:** Inadequate internal controls to ensure accurate financial reporting
**Prior Year Finding:** 05-25
**CFDA:** 93.575, 93.596
**CFDA Title:** Child Care Cluster
**Federal Award:** G-0501MECCDF, G-0601MECCDF
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Health and Human Services Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Reporting

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Uniform Administrative Requirements for Grant and Cooperative Agreements with State, Local and Tribal Governments (45 CFR §92.20 (a))

**Condition:** The Department did not have adequate internal controls in place to ensure accurate financial reporting. The ACF-696 financial reports do not accurately reflect expenditures related to specific federal grant awards. Funds returned from subrecipients as part of the grant settlement process are credited to the current year grant award rather than being attributed to the grant under which the original award was made. Expenditures related to the returned funds are charged to current or future grant awards.

**Context:** Grant agreements with subrecipients typically span the first year of the grant award. Agreements are settled at the end of the first year resulting in either payment to subrecipients or cash being returned from subrecipients after the grant award year.

**Cause:** The Department has not designed a transaction coding scheme in the primary accounting system that will ensure that federal funds maintain their identity and that expenditures are charged against appropriate federal award in a manner that will facilitate accurate financial reporting.

**Effect:** Inaccurate accounting of a specific federal grant award will increase the risk that funds may not be spent within the period of availability or that expenditures may be inappropriately charged against future grant awards. Failure to implement an effective account coding structure will inhibit accounting staff's ability to compile accurate grant award financial information and report the use of grant funds and grant balances.

**Recommendation:** We recommend that the Department:

- Develop an account coding structure that will effectively use the new cost accounting module that will be available in the State's accounting system on July 2, 2007.
- Tag all grant award transactions with appropriate federal grant award coding in order to facilitate accurate financial reporting and management of grant funds.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services and the Department of Administrative and Financial Services agree with this finding.*

*After discussions with the Federal Grant Officer at the U.S. Department of Health and Human Services, Administration for Children and Families, the Service Center has developed and implemented a procedure to code returned funds as discretionary (with the exception of identified TANF funds). The Service Center is working on refining this procedure to incorporate the use of the new cost accounting module; the targeted date for completion is September 30, 2007.*

***Contact****: Matthew Halloran, DAFS, DHHS Service Center - Managing Staff Accountant, 287-5498*

**Please see the following findings for other issues relating to this program.**

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**(06-50)**

**Finding Title:** Incorrect Federal Financial Participation rate applied
**Prior Year Finding:** No
**CFDA:** 93.658, 93.659
**CFDA Title:** Foster Care-Title IV-E
Adoption Assistance
**Federal Award:** 0601ME1401, 0601ME1407
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of Child and Family Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Matching

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** 45 CFR §1356.60

**Condition:** The State did not use the correct federal financial participation rate from October 2005 to February 2006. The automated information system (MACWIS) was not updated to reflect the lower rate. This error resulted in the State not paying the required matching contributions for those four months. However, expenditures reported on the quarterly financial reports were accurate because the appropriate rate was used when compiling the report.

**Context:** This was a systemic problem.

**Cause:** Inadequate procedures for updating the automated information system.

**Effect:**
- Noncompliance with federal matching requirements
- State's accounting records do not support expenditures reported on the federal expenditure report
- Noncompliance with Cash Management Improvement Act

**Recommendation:** We recommend that the Title IV-E programs implement procedures to ensure that rate changes are implemented timely.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*The revision of the FFP rate is a manual process. The omission occurred when the employee responsible for notification of the rate change moved to a new position. The Office of Child and*

*Family Services has a written procedure that makes this process the responsibility of the Information Services Manager.*

***Contact:*** *Robert Blanchard, DHHS - Social Services Manager, 287-6252*

**(06-51)**

**Finding Title:** Foster Care Overdraw
**Prior Year Finding:** No
**CFDA:** 93.658, 93.659
**CFDA Title:** Foster Care-Title IV-E
Adoption Assistance
**Federal Award:** 0601ME1401, 0601ME1407
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Health and Human Services Service Center

**Finding type:** Internal control and compliance

**Compliance area:** Cash management

**Known questioned cost:** None

**Likely questioned cost:** None

**Criteria:** Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement (31 CFR §205 Part B)

**Condition:** The Title IV-E programs do not have adequate procedures in place to ensure compliance with cash management requirements.

- Foster Care continued to have an overdrawn balance with the federal government from prior years until final payment was made in June 2007. The ending overdraw balance is currently $1,069,000 as a result of incorrect expenditure data provided to the federal agency for the 2000 grant year. The State drew federal cash in the amount of the actual expenditures, but because of an error, the State reported fewer expenditures and the funding authorization was reduced to allow only the lower amount of expenditures. In June 2007, the federal Division of Payment Management will allow the correct expenditures to be reported, thus negating the remaining overdraw.
- Adoption Assistance drew federal cash in excess of the reported expenditures during the federal year 2006 which was paid in May 2007.
- Draws are not reconciled to expenditures recorded on the State's accounting system.
- Draws were made for unsupported expenditures.

- There are five federal programs in the 0137 appropriation account. The Controller's Office requires that cash be managed at the appropriation level, but it is difficult to manage the cash needs of each of the five programs at that level.
- A third federal program in the same appropriation account used federal cash from the Title IV-E programs to pay for its expenditures as cash was not drawn from that program. This is an unallowable use of Foster Care or Adoption Assistance funds.

**Context:** This is a systemic problem.

**Cause:** There are internal control weaknesses in the following areas:
- Failure to reconcile reported expenditures to the State's accounting system
- Staff turnover
- State's accounting system does not include all Title IV-E expenditures which makes it difficult to monitor cash needed
- Computer rate error identified in finding 06-50
- Five federal programs within one appropriation account

**Effect:** Inaccurate federal draws may cause:
- Appropriation of general fund money to repay federal government
- Interest charges
- Inefficient use of federal cash and general fund cash

**Recommendation:** We recommend that the Health and Human Services Service Center continue to strengthen cash management procedures to address the causes identified above.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services and The Department of Administrative and Financial Services agree with this finding.*

*Effective July 1, 2007, two out of the four federal programs were moved to their own appropriation accounts and one federal program has expired. Foster Care and Adoption Assistance need to share an account as the final split of expense between them cannot be determined until statistical information is available at the end of the quarter, following the expenditure. This makes exact determination of the correct draw coding impossible at the time of the expense.*

*DHHS Service Center staff has been trained on CMIA and continue to fine tune the estimation and reconciliation process.*

***Contact:*** *Charles Woodman, DAFS, DHHS Service Center, Deputy Director, 287-2572*

**(06-52)**

**Finding Title:** No internal controls to prevent payments to debarred or suspended parties
**Prior Year Finding:** No
**CFDA:** 93.658, 93.659
**CFDA Title:** Foster Care-Title IV-E
Adoption Assistance
**Federal Award:** 0601ME1401, 0601ME1407
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of Child and Family Services, Division of Purchased Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Suspension and debarment

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Subawards to debarred and suspended parties (45 CFR §92.35)

**Conditions:** The Title IV-E programs did not have effective control procedures in place to ensure nor did they verify that payments were not made to those who had been suspended or debarred.

**Context:** This is a systemic problem.

**Cause:** Unfamiliarity with the requirements.

**Effect:** Failure to comply with these program requirements could result in payments to vendors that have been suspended or debarred by the federal government. This could result in future questioned costs.

**Recommendation:** We recommend that the Title IV-E programs ensure that vendors are not suspended or debarred.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services, Office of Child and Family Services agrees with the finding.*

*While contracts do contain standard language regarding certification against debarment and suspension, some contracts are not renewed yearly.*

*For those contracted providers with "no-end date" contracts, OCFS will assure compliance with this requirement by asking the agency to sign a certification statement regarding debarment and suspension on a yearly basis.*

*Certifications will be sent to these providers no later than September 1, 2007. Additionally, language is being added to the OCFS/University of Maine Cooperative Agreements that use Title IV-E funding.*

*This will be implemented for Agreements with begin dates of July 1, 2007 and October 1, 2007.*

***Contact:** Dulcey Laberge, DHHS - Division of Public Service Management, Director, 287-5064*

**(06-53)**

**Finding Title:** Financial reports inaccurate
**Prior Year Finding:** 05-27
**CFDA:** 93.658, 93.659
**CFDA Title:** Foster Care-Title IV-E
Adoption Assistance
**Federal Award:** 0601ME1401, 0601ME1407
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Health and Human Services Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Reporting

**Known Questioned Cost:** $ 22,602 (Adoption Assistance)

**Likely Questioned Cost:** $ 90,408 (Adoption Assistance)
Calculated by multiplying the identified questioned costs for one quarter by four

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments (45 CFR §92.20)

**Conditions:** The Foster Care and Adoption Assistance programs did not have adequate internal control procedures in place to ensure accurate financial reports. The programs reported inaccurate data for the quarter ended December 31, 2005. The inaccuracies included:

- Incorrect formulas
- Incorrect percentages
- Unallowable costs claimed
- Allowable costs not claimed

**Context:** This is a systemic problem.

**Cause:**
- Incomplete written policies and procedures
- Failure to reconcile
- Staff turnover
- Complex report template
- Information reported must be obtained from multiple sources

**Effect:** In addition to providing misleading financial information, inaccurate reporting may cause loss of revenue and current and future questioned costs.

**Recommendation:** We recommend that the Foster Care and Adoption Assistance programs:
- Improve the written procedures to enable the preparation of accurate financial reports
- Reconcile the reports to the State's accounting system
- Simplify the report template
- Enter all relevant financial data into the accounting system.

**Management Response/Corrective Action Plan:** *The DHHS Service Center, Administrative and Financial Services agrees with the finding.*

*The Title IV-E federal report for the quarter ending 12/31/05 was adjusted, therefore returning the questioned cost amount back to the grant. Currently, the Senior Staff Accountant prepares the IV-E reports and the Managing Staff Accountant reviews for accuracy. The staff continues to review the procedures and revise them as necessary along with reviewing methods to record all activity in the accounting system in order to perform appropriate reconciliations. Due to the fact that the Title IV-E report is a very complex report and the staff turnover is high in this area, the DHHS Service Center is planning on conducting educational sessions during fiscal year 2008.*

*The DHHS Service Center has started to review all the accounts into order to propose a revised account structure in the future.*

***Contact:*** *Charles Woodman, DAFS, DHHS Service Center - Deputy Director, 287-2572*

**Please see the following findings for other issues relating to this program.**

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**(06-54)**

**Finding Title:** Payments made on behalf of ineligible clients
**Prior Year Finding:** 05-53
**CFDA:** 93.659
**CFDA Title:** Adoption Assistance
**Federal Award:** G-0601ME1406
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of Child and Family Services

**Finding Type:** Compliance

**Compliance Area:** Eligibility

**Known Questioned Cost:** $62,325

**Likely Questioned Cost:** $62,325

**Criteria:** Grants to States for Aid and Services to Needy Families with Children and for Child-Welfare Services, Adoption Assistance Program (42 USC §673)

**Condition:** During fiscal year 2006 the Department continued to make federal payments on behalf of 11 clients that the HHS Office of Inspector General (OIG) deemed ineligible in a report dated April 2005 (A-01-04-02503).

**Context:** The OIG, in the April 2005 report, found 403 clients ineligible. The State appealed the decision on 58 of these clients and continued to make federal payments on their behalf. The federal government upheld their ineligibility determination on 25 of these 58 clients. During fiscal year 2006, federal payments continued for 11 of these 25 clients. We question the costs associated with these 11 clients.

**Cause:** The Department made a decision to continue federal participation for those clients whose eligibility was being appealed.

**Effect:** Current and potential future questioned costs

**Recommendation:** We recommend that the Department discontinue federal participation for the remaining clients that were identified as ineligible by the OIG.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*Federal payments continued until August 2006 for ten out of the 25 clients which were found ineligible during the OIG's audit. Retroactive adjustment was made on the September 30, 2006 federal report to reimburse the grant.*

*Office of Child and Family Services continued to claim Title IV-E for one child that was determined ineligible. OCFS will be working with ACF to demonstrate that all eligibility requirements had been met for this child.*

*Beginning July 1, 2006, the Adoption Assistance Financial Resource Specialist has requested relevant components of the child's eligibility file and uses a checklist to ensure complete documentation of the child's file in pending and future Adoption Assistance cases.*

***Contact:*** *Dulcey Laberge, DHHS - Division of Public Service Management, Director, 287-5064*

**Please see the following findings for other issues relating to this program.**

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**(06-55)**

**Finding Title:** Inadequate cash management procedures
**Prior Year Finding:** 05-28
**CFDA:** 93.667
**CFDA Title:** Social Services Block Grant (SSBG)
**Federal Award:** ME-SOSR05, ME-SOSR06
**Federal Agency:** U.S. Department of Health & Human Services
**State Department:** Administrative and Financial Services (DAFS)
Health and Human Services (DHHS)
**Bureau:** Health and Human Services Service Center
Office of Child and Family Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Cash management

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement (31 CFR §205 Subpart B).

**Condition:** Control procedures were not adequate to ensure compliance with all federal cash management requirements. We found the following:

- Program accounting personnel implemented draw down procedures to ensure a cash-on-hand balance of $450,000. Whenever their cash balance dropped below this threshold, federal cash would be drawn. This policy resulted in the program having excessive federal cash-on-hand throughout fiscal year 2006.
- The SSBG did not ensure that payments to all subrecipients were only for immediate cash needs.

**Context:** This is a systemic problem.

- For 11 of the 12 months tested, there was excess federal cash-on-hand.
- The cash balance at year-end was $748,000.
- One of the ten subrecipients' monthly payments was not adjusted to reflect the subrecipient's cash needs based on their quarterly financial reports.

**Cause:**

- The program's internal policy to always have $450,000 cash-on-hand
- Staff turnover

**Effect:**

- Noncompliance with cash management requirements
- Current and potential future questioned costs

**Recommendation:** We recommend that SSBG draw federal cash no more than seven business days in advance of their actual federal program disbursements. We further recommend that SSBG disburse funds to subrecipients based on the subrecipients' immediate cash needs.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services and the Department of Administrative and Financial Services agree with this finding.*

*As of July 2007, DHHS Service Center has assigned a financial analyst to oversee all cash management for the Department. This person has met with the Treasurer's Office CMIA administrator and has started to implement procedures to limit draws to comply with federal cash management rules.*

***Contact:*** *Charles Woodman, DAFS, DHHS Service Center - Deputy Director, 287-2572*

**Please see the following findings for other issues relating to this program.**

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# STATE CHILDREN'S INSURANCE PROGRAM

**(06-56)**

**Finding Title:** Estimated expenditures reported
**Prior Year Finding:** No
**CFDA:** 93.767
**CFDA Title:** State Children's Insurance Program (SCHIP)
**Federal Award:** 05-0405ME5021
**Federal Agency:** U.S. Department of Health & Human Services
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Health and Human Services Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Reporting

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:**
- Attachment A, Subpart C (Basic Guidelines) of OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*
- 42 CFR §457.630(4)(e)(1) and (2)

**Condition:** The Department of Administrative and Financial Services' Health and Human Services Service Center reported $1.1 million in "estimated" administrative costs as "actual" expenditures on the program's quarterly expenditure reports for the period 7/1/05 through 6/30/06. The Service Center representatives signed the reports, which require them to certify to the best of their knowledge and belief that "expenditures included in the report are based on the State's accounting of actual recorded expenditures, and are not based on estimates."

**Context:** The Service Center placed reliance on a consultant's study, which identified additional potentially allocable "budgeted" costs. The Program has a 10% cap on administrative costs; the Service Center subtracted administrative costs actually incurred from the cap amount available and then added estimated costs equivalent to the remaining cap amount.

**Cause:** The Service Center did not determine what actual costs were incurred in the areas identified by the consultant but assumed costs to have been incurred.

**Effect:** The Service Center claimed federal reimbursement in excess of the charges that it could support; however, a questioned cost was not developed as the Service Center was subsequently able to identify more than $1.1 million in allowable administrative costs that could be claimed in lieu of the reported "estimated" amounts. Section 3.1 of the SCHIP State plan allows Maine to claim health services initiatives' (HIS) costs under the State's 10 percent administrative cap.

**Recommendation:** We recommend that the Health and Human Services Service Center only claim "actual" expenditures on the program's quarterly expenditure report.

**Management Response/Corrective Action Plan:** *The Department of Administrative and Financial Services, Health and Human Services Service Center agrees with this finding.*

*Beginning July 2007, actual expenditures will be recorded on the program's quarterly reports instead of the consultant's spreadsheet. Also, this step will be added to the procedures documentation for the CMS 21 report.*

***Contact person**: Chuck Bryant, DAFS, DHHS Service Center - Financial Analyst, 287-3171*

**Please see the following findings for other issues relating to this program.**

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**(06-57)**

**Finding Title:** Program integrity reviews show over billing of waiver costs
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778
**CFDA Title:** Medicaid Cluster
**Federal Award:** 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Adults with Cognitive & Physical Disability Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Allowable costs

**Known Questioned Cost:** $130,912 ($206,485 x .634 blended federal financial participation rate)

**Likely Questioned Cost:** Undeterminable

**Criteria:** MaineCare Benefit Manual (Chapter I and Chapter II, §21)

**Condition:** Home and Community Based Services Waiver (Waiver) providers do not have sufficient records to support MaineCare invoices. To date, the DHHS Program Integrity Unit (PIU) has reviewed four providers, each was issued a recoupment letter.

Waiver client reimbursement rates are based on provider budgeted costs. PIU cited the agencies for the following:

- Not incurring or overstating budgeted costs, including having fewer staff than budgeted
- Billing unallowable costs, including personal expenses
- Lacking documentation to support services billed
- Billing for more units of service than actually provided

**Context:** The PIU examined four providers during fiscal year 2006 and recommended significant recoupments for each of these providers. One of the four has agreed to repay $206,485 for one client. The other three providers, who were requested to repay from $56,518 to $539,310 for one or more clients, are in various stages of the appeal process.

According to one national organization, Maine's average Waiver cost of approximately $79,000 is about twice the national average. During fiscal year 2006, the Medicaid Home and Community Based Services Waiver Program expended $242 million.

**Cause:** Financial monitoring has been insufficient. The program has not compared providers' actual costs to their estimated costs, nor controlled costs by adjusting rates accordingly.

**Effect**: Medicaid costs are higher than necessary. Providers receive payment based on their estimated costs; if estimated costs are not incurred or are overestimated, the providers receive excessive payments.

**Recommendation:** We recommend that the Department establish financial accountability over Waiver expenditures by basing its payments on actual costs. We also recommend that the Department provide the Program Integrity Unit sufficient resources to expand their examination capabilities. We note that the Department is moving from negotiated rates to a published rate payment structure.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with the rate recommendation in this finding.*

*The Department is moving toward a published rate system. The rates have been developed though an extensive analysis of cost data and have used this data to set reasonable rates. It is anticipated that these rates will be effective in the second quarter of fiscal year 2008.*

***Contact:** Jane Gallivan, DHHS - Program Systems Director, 287-4212*

**(06-58)**

**Finding Title:** Insufficient claims payment controls
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778
**CFDA Title:** Medicaid Cluster
**Federal Award:** 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Adults with Cognitive & Physical Disability Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Activities allowed or unallowed

**Known Questioned Cost:** $12,173 ($19,200 x .634 blended federal financial participation rate)

**Likely Questioned Cost:** Undeterminable

**Criteria:**
- 42 CFR §433.10- §433.131 – Medicaid claims management system requirements
- U.S. Department of Health & Human Services Understanding Medicaid Home and Community Services: A Primer.

**Condition:** The Medicaid Claims Management System (MECMS) has insufficient edit and limit checks to control Waiver expenditures and to provide assurance that only authorized payments are made. MECMS and the Enterprise Information System (EIS) are not fully integrated and do not allow administrators to easily manage or monitor program activity.

MECMS will not prevent providers from front-loading or billing early. A test of payments made for six clients showed that one provider's weekly invoices for two clients were for more units of service than the authorized average. We requested a MECMS query of all similar payments for those clients, for that service code, to that provider. The query showed that the provider billed the system's weekly maximum number of hours until reaching the entire amount authorized for the year. The provider stopped billing by March, when the units of service reached the clients' annual authorized service limit, although service continued through June. Although the provider did not bill more than the total authorized, the claims payment system would not have prevented it. We obtained client service documentation showing that all services billed were provided, although the number of service units was much higher than that on which the rate was established.

MECMS will not prevent over billing. We further tested this internal control weakness by judgmentally selecting two other clients of other providers for whom payment rates had been set based on fewer units of service than the system limit. We requested queries of all payments for that service code, for those clients, to those providers. Our testing was limited as the queries, although straightforward, are time-consuming. They require manual processing through multiple screens; the requested query took experienced Department staff approximately two days. One of the two providers overcharged the program. The provider billed the maximum number of units of service that the system will process; thereby charging $19,200 more than authorized, and more than the provider's estimated costs. We note that the client was initially authorized 350 days annually at a rate of $241.83. Halfway through the year the annual days authorized were reduced to 305 days and the rate increased to $444.17 per day. The provider actually billed for 363 days, at the billing rates in effect at the time.

**Context:** The Waiver program has set its rates to cover provider estimated costs: the rate per unit of service is dependent on how many units are authorized over any given period. If fewer units are authorized the rate per unit is higher; if more units are authorized, the rate is lower. Although the provider's annual cost is to some extent driven by the services that clients require, the providers' estimated costs are allocated to whatever the number of units is. The number of units and the rate per unit are somewhat arbitrary and function primarily as a billing mechanism. Most clients receive services year round even though the number of units authorized is often less than that.

**Cause:** Once payment rates have been established, MECMS generally processes claims without human intervention. For Waiver code W125, Personal Support Services, the only system limit is the weekly maximum number of units that will be paid (168 hours = 7 days X 24 hours). It has no edit or limit checks to ensure that providers do not bill for more than the total dollars or units authorized on a weekly, monthly or annual basis.

Current information systems do not facilitate program management and oversight. MECMS was placed in operation in January 2005; it has limited reporting capacity. The associated Maine Medicaid Decision Support Services database, which summarizes information for reporting, has not worked. Program personnel also use EIS to manage and administer the Home and Community Based Services Waiver program. Although much program information, including units of service and individual client payment rates, is entered into EIS, actual claims payment information does not flow back from MECMS to EIS, but must be obtained by other means.

**Effect**: The rate structure may result in:

- Approved total annual payments being made sooner than authorized
- Units of service provided may not be billed
- Service units may be billed for more than the annual amount authorized

The intent is that the program cover the providers' estimated annual costs but when units are set artificially low, providers may overcharge. We question the federal portion of the excess amount billed (18%), $12,000. It was not possible to project likely questioned costs because of the number of variables involved.

**Recommendation:** We recommend that the program:

- Authorize annual/weekly units of service that correspond to those actually required.
- Periodically monitor providers to prevent overbilling and unauthorized early billing.
- Incorporate edit or limit checks to restrict payments to total annual units or dollars authorized.
- Include actual payment data in EIS to facilitate program management.
- Recover any overpayments.

**Management Response/Corrective Action Plan:** *The Department agrees with the recommendations.*

*1. The Department's new Published rate system has specific authorizations based on the member's need.*
*2. Currently, DHHS and OIT are planning to develop a set of computer programs that will capture over-billing information after the fact and allow for recovery. The timeframe for beginning the development of these programs is targeted for spring 2008, based upon current priorities.*
*3. DHHS and OIT will review edits and limit checks and its ability to restrict total annual dollars authorized. If this is not easily fixable within MECMS, then this issue will be addressed during the implementation of the Fiscal Agent.*
*4. DHHS and OIT are also planning to develop a set of computer programs, as part of EIS, that will match claim information to data within EIS; allowing for better program management. The timeframe for beginning the development of these programs is targeted for summer 2008, based upon current priorities.*
*5. The Division of Program Integrity is currently involved with recovering overpayments as they obtain this information.*

***Contact****: Jim Lopatosky, DAFS/OIT/DHHS – Information Technology Director, 287-1921*

**(06-59)**

**Finding Title:** Inadequate financial accountability–payment rates not supported and include unallowable costs
**Prior Year Finding:** 05-57
**CFDA:** 93.775, 93.777, 93.778
**CFDA Title:** Medicaid Cluster
**Federal Award:** 05-0505ME5028, 05-605ME5028
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Adults with Cognitive & Physical Disability Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Allowable costs/Cost principles

**Known Questioned Cost:** Undeterminable

**Likely Questioned Cost:** Undeterminable

**Criteria:**

42 CFR §441.302 (b) *Financial accountability*

U.S. Department of Health & Human Services, Understanding Medicaid Home and Community Services: A Primer

42 CFR §441.310 Limits on Federal Financial Participation (FFP)

MaineCare Benefits Manual §21.05-1

**Conditions:** The Home and Community Based Services Waiver Program (Program) does not have adequate internal controls to ensure financial accountability for program expenditures. The Program established payment rates that were not supported, varied widely, were changed to cover provider costs, and included unallowable costs. In our sample of 60, we noted the following:

Unsupported rates:

The Program did not have provider budgets to support rates established for ten of 24 (42%) of Residential Training clients sampled and eight of 29 (28%) of Personal Support Services clients.

Rates are not uniform and change:

The Program can pay markedly different rates for the same client, depending on who their provider is, what the provider includes for estimated costs, and whether that provider has other client vacancies. If the numbers of clients serviced by a provider change, program personnel adjust rates paid for one or more of the remaining clients.

Unallowable Administrative Occupancy Costs:

Thirteen of 14 (93%) of the Residential Training budgets received and 15 of the 21 (71%) Personal Support Services budgets included unallowable costs for administrative occupancy.

Unallowable Start-Up Costs:

One of the 21 (4.8%) Personal Support Services provider budgets included unallowable costs for furnishings and equipment/capital. This provider operates multiple facilities, all of which can be expected to have similar, unallowable costs.

Unallowable Transportation Costs:

For eleven of 21 (52%) budgets for personal care services (personal support services) for clients, the program set payment rates based on provider budgets that included transportation costs, which are unallowable for personal support services clients.

**Context:** We examined three Waiver categories of service, which together account for approximately 90% of Program expenditures. Budgeted expenditures for these service categories were approximately $237 million.

**Cause:**

- The Program never obtained or compared actual provider costs to budgeted provider costs or adjusted its rates accordingly.
- The Program established payment rates for large providers by using a "negotiated rate method" based on specific providers' expected service costs supported by annual budgets.
- There is no documentation to support rates for smaller providers. The Program rates were based on "whatever was acceptable to the provider" and stayed the same until the provider requested a change.
- Individual regional resource coordinators who approved the rates do not have accounting or finance backgrounds.
- There was limited central oversight of the coordinators that approved rates.
- The Program's interpretation of allowable costs included unallowable costs such as administrative occupancy costs.
- Unallowable room and board costs are included in approved rates.

**Effect**: State and federal funds have been expended for services that, to some unknown extent, were not allowable. The Program could not support its determination of rates that resulted in budgeted expenditures of $39.9 and $32.8 million.

Known questioned costs were not determinable since provider costs are based on provider estimated costs rather than actual costs. Likely questioned costs cannot be projected since known questioned costs are not determinable.

**Recommendation:** We recommend that the Program establish consistent, equitable rates that are based on only allowable, actual costs.

DHHS indicated that it intends to remove these unallowable costs for rates implemented in January, 2007. The Program is moving to a published rate system that should provide more consistent and equitable treatment of all providers and clients.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*The Department is moving to a standardized rate system, whereby providers receive the same rate for the same service. Additionally, the Department has removed all room and board costs from the standardized rates and will pay for those costs with State general funds appropriated from the legislature for this purpose.*

***Contact****: Jane Gallivan, DHHS – Central Office - Program Systems Director, 287-4212*

**(06-60)**

**Finding Title:** Unallowable targeted case management charges to Medicaid
**Prior Year Finding:** 05-55
**CFDA:** 93.775, 93.777, 93.778
**CFDA Title:** Medicaid Cluster
**Federal Award**: 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Department of Administrative and Financial Services (DAFS); Department of Health and Human Services (DHHS)
**Bureau:** Office of Child and Family Services (OCFS)
Health and Human Services Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Allowable costs/Cost principles

**Known Questioned Cost:** $27,870 (31 unallowable claims at $899.02 each)

**Likely Questioned Cost:** $10.6 million ($20.3 million multiplied by a 52% error rate, or 31 unallowable claims of 60 tested)

**Criteria:**
OMB Circular A-87; 42 USC §1396n(g)(2)
Medicaid State Plan

**Condition:** DHHS does not have adequate procedures in place to identify allowable targeted case management services to foster care clients.

- DHHS has not provided cost information to support rates charged for targeted case management services provided directly by DHHS. Therefore, it is not possible to determine the appropriateness of those federal charges, which for fiscal year 2006 were

approximately $35 million. DHHS states that the rates have been verbally approved by the federal government. Representatives from the U.S. Department of Health and Human Services, Office of the Inspector General state that it is the methodology for deriving the rates that is approved, not the actual rates.

- The Maine Automated Child Welfare Information System (MACWIS) generates targeted case management claims to Medicaid based on information entered. MACWIS log entries do not distinguish between Medicaid allowable case management and Title IV-E Foster Care and other non-Medicaid reimbursable services.
- Multiple targeted case management claims can be generated by a single home visit if a caseworker copies a client log entry into the records of other children in the household, which could result in duplicate claims being paid for a family with several children.
- Billing policies for case management services are inconsistent. The Office of Elder Services (OES) generates a Medicaid claim for a minimum of one half hour of client services whereas the OCFS generates a claim for only 15 minutes.
- State matching costs for case management are based on calculations, not actual costs.
- OCFS methods used to charge Title IV-E for case management and Medicaid case management are inconsistent and could result in overbilling. Case management services are billed to Title IV-E based on a pro-rata share of caseworker time, whereas Medicaid is charged based on a monthly rate per client.
- OCFS and the OES do not have adequate controls in place to reconcile claims paid with claims submitted to the Office of MaineCare Services (OMS) for reimbursement.

**Context:** In fiscal year 2006, the total State and federal share of targeted case management expenditures was approximately $93 million. Of this amount, Medicaid paid DHHS approximately $50 million with the remainder paid to other providers. Of the $50 million, approximately $35 million was reimbursed by the federal government.

Of the 60 TCM claims from OCFS that we tested, 31 (52%) of the caseworker files document activities (such as making arrangements for visitation) that constitute normal caseworker services rather than special arrangements for services to clients eligible for the Title IV-E programs. We also note that the U.S. Department of Health and Human Services, Office of Inspector General has audited targeted case management; its final report has not yet been released.

**Cause:** DHHS has not given adequate consideration to the guidance provided by the Centers for Medicare and Medicaid Services (CMS); and has not sufficiently defined or made a distinction between targeted case management services and direct Title IV-E case management services.

**Effect**: Medicaid funds may be expended for unallowable costs resulting in current and future questioned costs. If DHHS did not incur matching costs it will result in questioned costs.

**Recommendation:** We recommend that the Department:

- Work with CMS to resolve all issues to the satisfaction of CMS with respect to billing for case management services and adequately document all policies and procedures
- Establish consistent policies and procedures in regards to billing for case management between State agencies

- Ensure that computer systems involved in tracking case management have the necessary controls in place to adequately distinguish chargeable TCM from case management not billable to Medicaid
- Document its expenditures of State funds to match the federal participation

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services disagrees with the questioned costs.*

*The Office of Child and Family Services performs case management services. It is considered targeted because it is provided to a target population, not because it is something other than "direct case management". The Health Care Financing Administration (HCFA) agreed to our current TCM rate in 1996. Representatives of Maine's DHHS met with officials of HCFA in Boston on or about 2/29/96 to discuss Medicaid reimbursement for TCM services. As a result of the discussion, the Department and HCFA agreed upon a Medicaid reimbursement rate for TCM services. The Department subsequently submitted bills to HCFA for TCM services as agreed upon and HCFA issued payment to DHS/DHHS in accordance with the terms of the 1996 agreement. Having said that, effective July 2006, DHHS has developed a new rate methodology as detailed in the OCFS cost allocation plan, whereby a Random Moment Time Study (RMTS) is used to determine what percentage of allowable costs is billed to Title IV-E. The remainder is built into the TCM rate that can be charged to Medicaid. The calculation will be total expenditures related to caseworkers and their work, including office and supervision overhead, multiplied by the percentage defined by the time study. The calculation will be done quarterly, giving the department a monthly billable rate. It should be noted that the RMTS only establishes the TCM rate; it is not used for billing purposes for individual claims. Billing for TCM is done on an individual monthly basis that is case specific for Medicaid eligible clients only. The evidence to support individual monthly TCM claims is documented in the MACWIS narrative log.*

*During fiscal year 2008, the TCM rate was reduced from $899 to $735.83.*

*Because the definition was admittedly ambiguous, Congress recently amended the definition of an appropriate Targeted Case Management Service claimable under Medicaid in Section 6052 of the Deficit Reduction Act of 2005 (DRA) – Reforms of Case Management and Targeted Case Management. As a result, effective January 2006, Maine no longer bills Medicaid for TCM services to children who are Title IV-E eligible.*

***Contact:*** *Kirsten Figueroa, DHHS - Deputy Commissioner of Finance, 287-1921*

***Auditor's Conclusion:*** We disagree with management's response for the following reasons:

We concur, as DHHS states, that the rate that it is currently charging for targeted case management dates back to 1996. However, we believe that DHHS has not adequately considered later federal guidance. The Centers for Medicare & Medicaid Services (CMS) issued a State Medicaid Director Letter (SMDL#01-013) dated January 19, 2001. The letter urges states to "undertake a careful review to ensure the activities to be claimed under Medicaid meet the

definition of case management and are not directly connected to the delivery of foster care benefits and services."

The finding remains as stated.

**(06-61)**

**Finding Title:** Noncompliance and inadequate internal control over Medicare Part B eligibility
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778
**CFDA Title:** Medicaid Cluster
**Federal Award:** 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of Integrated Access and Support
Office of MaineCare Services
Financial Management Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Eligibility

**Known Questioned Cost:** $112
This is the federal portion of two Medicare Part B insurance premiums paid by the State for Medicaid ineligible persons. (two individuals at $88.50 each at a federal participation rate of 63.4%)

**Likely Questioned Cost:** $1,186,020
This was computed by applying the sample error rate of 3.33% to the population of federal expenditures for Medicare Part B insurance ($35,616,230).

**Criteria:**
- 42 CFR §431.625
- MaineCare Eligibility Manual, Chapter 332, Appendix (3-1)

**Condition:** DHHS charged the Medicaid program for Medicare Part B premiums for individuals who were not eligible or who were identified as ineligible. Of the 60 individuals included in our test, DHHS automated eligibility systems showed that five were not eligible. However, once individual case histories for the five were researched, only two of the five, or 3.33% of the 60 sampled were not eligible.

**Context:** In fiscal year 2006 DHHS paid $56.1 million to the Centers for Medicare and Medicaid Services for Medicare Part B coverage.

**Cause:** DHHS made the monthly payments without comparing the identities of the insured to the State's Medicaid eligibility records. For the three individuals who the system showed ineligible in error, two incorrect assessments were due to problems with data exchange between internal eligibility systems and one to case worker error.

**Effect**: Medicaid costs are higher than necessary. DHHS has paid premiums for ineligible individuals. Projections of the results of our sample indicate that as much as $.7 million from the General Fund and $1.2 million of federal funds could have been saved in fiscal year 2006.

**Recommendation:** We recommend that the Department develop electronic matching procedures to ensure that payments are made only for eligible individuals.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with the finding.*

*The Department agrees that we do need to perform regular reconciliations of what CMS bills the State of Maine for Buy-In recipients in order to verify accuracy in the payment process. The reconciliation will identify those individuals eligible for payment and those that are not. The Department plans to have the reconciliation in place by December 2007 and will perform the reconciliation every 6 months in order to maintain payment accuracy.*

***Contact:*** *Tom Keyes, DHHS – Office of Integrated Access and Support (OIAS), Deputy Director, 287-2310*

**(06-62)**

**Finding Title:** Controls insufficient to prevent unallowable waiver transportation costs
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778
**CFDA Title:** Medicaid Cluster
**Federal Award:** 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Adults with Cognitive & Physical Disability Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Activities allowed or unallowed

**Known Questioned Cost:** Undeterminable

**Likely Questioned Cost:** Undeterminable

**Criteria:**

- Application for a § 1915 (c) Home and Community-Based Waiver [version 3.3] – Instructions, Technical Guide and Review Criteria
    - Appendix C, Attachment: Core Service Definitions – B-3. Non-Medical Transportation)
- State Organization and General Administration, Assurance of Transportation (42 CFR §431.53)
- Services: General Provisions, Transportation (42 CFR §440.170(a))

**Condition:** The Department of Health and Human Services does not ensure that the Waiver program does not pay for medical transportation services that are required to be provided by the Medicaid State Plan. According to federal technical guidance, non-medical transportation services are allowed under the Waiver program. However, medical transportation services required by the general Medicaid requirements (provided under the State Plan) shall not be charged to the Waiver program. We found instances where client Individual Care Plans indicated that all transportation needs, including to medical appointments, were provided by the Waiver provider.

**Context:** Twenty of the sixty Individual Care Plans examined stated that all transportation needs, including to medical appointments, were provided by the Waiver provider. Payment rates for waiver services generally have been based on budgets that included funding for transportation. In many cases, providers' budgets include purchase of vehicles. We do not question costs as transportation costs are built into provider rates and some transportation costs are allowable Waiver charges.

**Cause:** Program personnel indicated that they have guidelines to limit the transportation costs that providers can build into their facility budgets but there is no apparent control in place to limit vehicle use to non-medical transportation. As vehicles are available, they appear to be used to meet all client needs including medical transportation.

**Effect**: The Waiver program is not compliant with the federal requirements regarding transportation charges.

**Recommendation:** We recommend that the Department advise providers that medical transportation must be billed separately and that it structure rates so that those costs are not paid with Waiver funds.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with the finding. The Department will continue to inform Providers to bill State Plan services for medical transportation.*

*The new published rates include transportation to non-medical services only. It must be recognized that there is limited availability of on-demand transportation services. The waiver program provides services on a 24/7 basis. In virtually all areas of the State, capacity to provide State plan transportation service does not exist. The priority of waiver services is to always provide for the health, welfare and safety of the program's participants which necessitates*

*availability of transportation services on very short notice. The Department will develop a process to document the refusal, denial or unavailability of State plan transportation services for medical transportation in order to monitor the waiver program.*

***Contact:*** *Jane Gallivan, DHHS - Program Systems Director, 287-4212*

**(06-63)**

**Finding Title:** Unallowable vocational and social services
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778
**CFDA Title:** Medicaid Cluster
**Federal Award:** 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Adults with Cognitive & Physical Disability Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Activities allowed or unallowed

**Known Questioned Cost:** Undeterminable

**Likely Questioned Cost:** Undeterminable

**Criteria:**

- MaineCare Benefits Manual, Home and Community Benefits for Members with Mental Retardation, Non-covered Services (§21.07)
- Application for a §1915 (c) Home and Community-Based Waiver [version 3.3] – Instructions, Technical Guide and Review Criteria
    - Appendix C, Attachment: Core Service Definition – 8. Day Habilitation
    - Appendix C-3: Waiver Services Specifications – G. Prevocational and Supported Employment Services

**Condition:** The Department of Health and Human Services has included unallowable vocational, recreational and social services in clients' Individual Care Plans (ICPs). According to federal technical guidance, waiver funding is not available for the provision of vocational services (e.g. sheltered work performed in a facility) where individuals are supervised in producing goods or performing services under contract to third parties. Additionally, waiver payments for day habilitation may not provide for services that are vocational in nature (e.g. sheltered work). The MaineCare Benefits Manual prohibits reimbursement of services provided to members of which the basic nature is to provide vocational, social, academic or recreational services.

**Context:** In our sample of 60 waiver client's ICPs, we found ten clients whose ICPs indicated unallowable sheltered work, employment by the day habilitation provider, or apparent social and recreational services. Examples of such unallowable services included the following:

- One ICP identified the service authorized as Supported Employment rather than as it was budgeted as Day Habilitation. The worksite is a Certified Work Center where individuals are supervised in producing goods or performing services under contract to third parties. Such Work Centers constitute sheltered employment; the activity is neither Supported Employment, which is in a regular work setting, nor Day Habilitation; it is not an allowable use of Waiver funds. Budgeted annualized costs for this service were $12,977; the federal share would be $8,100.
- A second ICP stated, "Some paid work as part of Day Services…" The client's budgeted annualized Day Habilitation costs were $16,926.
- A third ICP included a description of activities that appeared to be predominately social and recreational services.
- Some Waiver clients earn some money by "working" for the providers who provide them Day Habilitation services. It is not always clear that the funding for this work is from other than Day Habilitation funds. Likewise, care plan narratives sometimes lack clarity as to the basic nature and medical necessity of all activities in which clients are engaged.

**Cause:** Narrative descriptions are not specific as to the exact nature of activities engaged in, the allowability of the activity for Medicaid funding or, if the activity is not funded by Medicaid, how it is funded. Unintentional miscoding of activities may also have occurred.

**Effect**: Some services made available to Waiver clients may not have been allowable Waiver charges or may have been miscoded. There is a potential for unallowable costs and any miscoding distorts program reporting.

**Recommendation:** We recommend that the Department personnel clearly describe the medical necessity of services provided, document any other funding sources for payments or services made to, or on behalf of, Waiver clients, and take due care to properly code the use of Waiver funds.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services partially agrees with this finding and offers the following as responses to the cited examples.*

*Regarding sample number one the Department agrees, and the consumer authorization has since been changed to reflect the accurate delivery of the service category.*

*With sample number two it is acknowledged that very limited remuneration occurred. This is not uncommon at a habilitation service site. Preparation for future employment is seen as habilitative and service plans often call for minor payment for contracted type work. In instances such as this the scope of work is limited and the day's events are primarily devoted to habilatative exercise that are not reimbursed. Often the total week's payment is $5.00 or less; it*

*is, however, the earning of this payment that greatly enhances the learning experience and develops pride in the events.*

*Sample number three cites opportunities provided to the consumer that on paper appear to be recreational in nature. The detail of what occurs during a community outing is not described, but attending church or the local gym are mechanisms to skill building, such as knowing how to use unknown public facilities appropriately (locker, shower); health benefits from the exercise, social and spiritual health from attending and participating in a community activity. CMS interprets "an activity that may appear to be a recreational activity may be rehabilitative if it is furnished with a focus on medical or remedial outcomes to address a particular impairment of functional loss".*

*The Department cites these as examples of community inclusion exercise and opportunities that are invaluable to ones integration into the community, one of the highest goals and outcomes that the waiver support can offer.*

***Contact:** Jane Gallivan, DHHS - Program Systems Director, 287-4212*

***Auditor's Conclusion:*** For the third sample, while we recognize that these activities may present a beneficial opportunity to the Waiver participant, Medicaid regulations state that the basic nature of a reimbursable activity cannot be social or recreational.

The finding remains as stated.

**(06-64)**

**Finding Title:** Prescription co-payment not charged and amounts overpaid for prescription drugs
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778
**CFDA Title:** Medicaid Cluster
**Federal Award:** 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of MaineCare Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Activities allowed or unallowed, Allowable costs/Cost principles

**Known Questioned Cost:** $1.60 + $6.40 = $8
This is the federal portion ($1.60) of a co-payment that was not charged and the federal portion of two overpayments ($6.40) as referred to in the Condition section of this finding.

**Likely Questioned Cost:** $47,089 + $204,052 = $251,141

The likely questioned cost amounts associated with co-payments and overpayments were computed by applying the respective error rates of .03% and .13% to the population of federal expenditures for prescription drugs ($156,963,014).

**Criteria:** MaineCare Benefits Manual, Chapter II §80

**Condition:** Three of 40 pharmacy transactions examined were paid incorrectly. In one instance the Department did not charge a member a standard MaineCare co-payment of $2.50; the transaction was not exempt according to the provisions of the MaineCare Benefits Manual, Chapter II §80. In two other instances, the Department paid the pharmacy more than the federal upper limit. Payments were made for $8.49 and $15.24 rather than $5.85 and $7.85.

**Context:** The Medicaid program expended approximately $247.5 million for prescription drugs in fiscal year 2006.

**Cause:** The payment errors were caused by errors in information contained in two electronic interface systems. With regard to the co-payment error, the prescription claims processing software received an electronic interface from the State's WELFRE system that incorrectly indicated that the member should not be charged a co-payment. The interface allowed an exemption for all members classified within a certain recipient aid category (1M). This is not consistent with State policy. With regard to the upper limit errors, the State's pharmacy claims processor relied on an electronic interface of data from an independent industry provider of drug information that contained incorrect information.

**Effect**: Pharmacy costs were shifted from the member to the federal and State governments and costs were overpaid.

**Recommendation:** We recommend that the Department review and correct the electronic rules governing member co-payments. We recommend that the Department compare the federal upper limit amounts in the claims processing database to the federal upper limit amounts issued by the Centers for Medicaid and Medicare Services; and make any necessary corrections. In addition, we also recommend that internal control procedures be established to ensure these amounts are correct on an ongoing basis.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*The Office of Integrated Services and the Office of MaineCare Services are reviewing the interface co-pay rules. The results of the review will be integrated into the interface to provide consistency with DHHS policies. The interface is targeted for completion in March 2008.*

*The Department of Health and Human Services concurs with the recommendation of reviewing/comparing the federal upper limit amounts in the claims processing database to the federal upper limit amounts issued by the Centers for Medicaid and Medicare Services. DHHS will require a quarterly review of CMS – To Medispan – To GHS - federal upper limit amounts and make corrections of any discrepancies and will establish a procedure for random auditing of*

*the State FULs to the current CMS/ Medispan tape to monitor quarterly review effectiveness (anticipated implementation date: October 2007).*

***Contact:*** *Carol Bean, DHHS - Comprehensive Health Planner II, 287-3941*

**(06-65)**

**Finding Title:** Information technology contracts insufficient and IT policies and controls inadequate
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778
**CFDA Title:** Medicaid Cluster
**Federal Award:** 05-0505ME5028, 05-0605ME5028
05-0505ME5048, 05-0605ME5048
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Office of Information Technology (OIT)
Systems for Office of MaineCare Services (OMS)
Office of Integrated Access & Support (OIAS)

**Finding Type:** Internal control and compliance

**Compliance Area:** Special tests and provisions

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:**
- 45 CFR §95.617(a) **-** Software and ownership rights
- The State information security policy adopted by the Information Services Policy Board (5 MSRA §1871 – §1896)
- Health Insurance Portability and Accountability Act of 1996 (HIPAA) - The HIPAA Security and Privacy Rules require all covered entities to protect the electronic protected health information that they use or disclose to business associates, trading partners or other entities.

**Condition:** OIT personnel responsible for computer systems activities of DHHS have not established sufficient procedures to comply with State information security policies, which also results in noncompliance with HIPAA. Departmental IT security policies do not sufficiently address a number of security risks, including the following:
- Third party system access
- Network-to-network connections that allow multiple users or systems from a third party to interact with State resources (Type of access and reasons for access should be driven

by a business need, which must be scrutinized by account management in accordance with State policy. A complete record of access granted and its usage should be documented for monitoring purposes.)
- Personnel screenings of prospective IT contractors who will be granted access to State Information Systems
- User training to provide security awareness, and updates to security policies or procedures (A failure to adequately perform these activities would affect the reporting of incidents and vulnerabilities as well.)
- Documentation of operating procedures and responsibilities for all information processing

We note that the State contracted with a vendor on June 2, 2005 to develop and formally document all information security policies and procedures.

- Internal controls over information security for MECMS are not operating effectively. DHHS has inappropriately assigned user privileges, including system level access, to vendors and has not adequately monitored them. Also, DHHS did not maintain documentation of system usage that would allow user activity to be reviewed on a regular and independent basis.
- DHHS IT contractual agreements are inadequate to minimize risk to the State in the following areas:
  - State IT management authority over vendor activities performed
  - Competency of the vendor contractors performing the work
  - State ownership of script/coding and supporting documentation of new IT processes as produced
  - Access to script/coding for new IT processes held in escrow during the development phases
  - Monitoring of vendor activity and limiting vendor access to specific timeframes
  - Testing the effectiveness of new program functionality
  - Sufficient access to vendors

**Context:** The State security policy was adopted by the Information Services Policy Board on December 19, 2002 to provide a uniform set of information technology security policies, standards and general guidelines for State government in accordance with 5 MSRA §§ 1871 – 1896. This policy requires that agencies establish and document detailed procedures that provide assurance that prudent steps have been taken to ensure the integrity, confidentiality, and availability of information systems.

**Cause:** Ongoing technical difficulties and frequent system enhancements related to DHHS programs have created pressure to resolve system problems in the shortest time possible.

**Effect**: Insufficient IT policies have resulted in the following:
- Noncompliance with information security guidelines
- Inadequate procedures to address IT vendor failures to meet contractual obligations

- The integrity, confidentiality, and availability of State information may be compromised for all IT systems administered by the Department
- The Department does not have ownership or documentation of all MECMS technical design plans and payment logic rules

**Recommendation:** We recommend that the Department improve its information security policies and procedures.

**Management Response/Corrective Action Plan:** *Department of Administration and Financial Services, Office of Information Technology partially agrees with this finding.*

*The audit finding suggests that OIT-DHHS does not have formal IT Security Policies or Procedures for its Automated Data Processing systems. OIT-DHHS had contracted with a vendor to interview all IT groups within DHHS and develop an enterprise-wide (DHHS) review of IT Security Polices and Procedures to ensure the Department is consistent with the State IT Security Policy. The deliverables for this project were completed in the fall of 2005. In December 2006, OIT-DHHS contracted with a vendor to review and augment the current Security Policies and Procedure documents to ensure compliance with HIPAA. Input has been received; however, the Department hasn't yet implemented all of the suggestions.*

*In fiscal year 2008, OIT-DHHS will work to develop an approach that ensures a DHHS-wide report on application systems. The report will include the following components for applications:*

*A. Physical security;*
*B. Equipment security;*
*C. Software and data security, including periodic penetration testing;*
*D. Telecommunications security;*
*E. Personnel security; Contingency plans;*
*F. Emergency preparedness; and*
*G. Designation of an Agency ADP Security Manager(s)*

*In order to balance workload, it is envisioned that reviews will happen for half of the applications in one fiscal year, the other half in the second. The feasibility of this report will consider the DHHS IT Security policy, the IRS Safeguard Review, and SSA Review. The approach and plan will be developed by January 31, 2008. The schedule for implementing this plan will be included in the January 31st deliverable.*

***Contact:*** *Brian Guerrette, DHHS/OIT/DAFS, Systems Section Manager, 287-1748*

***Auditor's Conclusion:*** While the Department has recognized the need for compliant policies and procedures, it has not yet implemented all necessary procedures nor documented them. The finding remains as stated.

**(06-66)**

**Finding Title:** Eligibility controls inadequate to ensure that payments are made from the appropriate program for only eligible individuals
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778 and 93.767
**CFDA Title:** Medicaid Cluster
State Children's Insurance Program (SCHIP)
**Federal Award:** 05-0505ME5028, 05-0605ME5028
05-0505ME5048, 05-0605ME5048
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Department of Administrative and Financial Services (DAFS)
Department of Health and Human Services (DHHS)
**Bureau:** Office of MaineCare Services (OMS)
Office of Integrated Access & Support (OIAS)
Office of Information Technology (OIT)

**Finding Type:** Internal control and compliance

**Compliance Area:** Eligibility

**Known Questioned Cost:**
Medicaid - $292

$292 is the federal charge paid by the State for an ineligible person in a test of $1,228,158 in non-pharmacy claims, a dollar error rate of 0.0238%.

SCHIP - $3,465 + $1,354 = $4,819

$3,465 is the federal charge paid by the State for ineligible persons in a test of $13,398 in non-pharmacy claims, a dollar error rate of 25.86%.

$1,354 is the federal charge paid by the State for ineligible persons in a test of $5,024 in pharmacy claims, a dollar error rate of 26.95%.

**Likely Questioned Cost:**
**Medicaid:** $306,576

$306,576 is the likely questioned costs projected by multiplying the total non-pharmacy expenditures of $2,011,149,043 for fiscal year 2006 by the dollar error rate (approximately .0238%) from the sample at the federal financial participation rate (approximately 64%).

**SCHIP:** $3,978,636 + $856,562= $4,835,198

$3,978,636 is the likely questioned costs projected by multiplying the total non-pharmacy expenditures of $20,296,184 for fiscal year 2006 by the dollar error rate (approximately 25.86%) from the sample at the federal financial participation share (approximately 75.8%).

$856,562 is the likely questioned costs projected by multiplying the federal pharmacy based Medicaid expenditures of $3,177,383 for fiscal year 2006 at the dollar error rate (approximately 26.95%) from the sample.

# MEDICAID CLUSTER

**Criteria:** OMB Circular A-102 Common Rule
45 CFR §92.20
42 USC §1320b-7(d)
42 CFR §431.10, §435.916, §435.907, §435.913, §435.910, §435.920

**Condition:** DHHS does not have adequate internal controls in place for the Medicaid and SCHIP programs to determine program eligibility, to maintain records of eligibility determinations or to charge the appropriate program for the associated costs of eligible individuals.

We tested eligibility determinations for 180 Medicaid and SCHIP client payments; these consisted of 60 Medicaid and 40 SCHIP non-pharmacy payments and 40 Medicaid and 40 SCHIP pharmacy payments.

- For Medicaid, one (1.7%) of the 60 non-pharmacy clients was not eligible; all of the 40 pharmacy clients were eligible. The ineligible client had no record in the Automated Client Eligibility System (ACES) and had no activity since 1998 in WELFRE (the legacy eligibility system.) As noted below, a high percentage of SCHIP clients tested were later determined to have been Medicaid eligible but charges were not moved to the Medicaid program.
- For SCHIP, two (5%) of the 40 non-pharmacy clients and seven (17.5%) of the 40 pharmacy clients were not eligible. The two non-pharmacy clients were not eligible for the SCHIP program; one was not eligible because other insurance was available, and one had not been eligible since 2004. All seven pharmacy clients had been determined eligible at the time payments were made, but were retroactively determined to be eligible for Medicaid, not SCHIP, as a result of additional information entered later. DHHS did not shift the associated charges between the programs when the eligibility determination changed, resulting in a disparity between program eligibility and program payments. The original eligibility determination was overwritten, and thereby deleted from the legacy eligibility system (WELFRE), with no audit trail.

**Context:** Medicaid is a $2 billion program, funded 64% with federal financial participation. SCHIP is a $33 million program, funded 76% with federal financial participation.

For the Medicaid and SCHIP programs, DHHS uses three interconnected computer systems: Automated Client Eligibility System (ACES), Welfare Information System (WELFRE), and Maine Claims Management System (MECMS) to determine client eligibility and assign client claims to the appropriate program for payment. Information flows from ACES to WELFRE to MECMS. It is necessary to look at all three in order to determine whether payments were made on behalf of eligible clients for allowable services by the appropriate program.

OIAS is responsible for determining eligibility. Its eligibility specialists interview clients, maintain case files, and verify income and assets. The eligibility specialists use ACES to record their determination; ACES is a "realtime" system, which also captures information used in determining eligibility by ongoing data exchanges. WELFRE is a legacy system (the predecessor to ACES), which receives eligibility determination codes from ACES and assigns them to recipient aid categories (RAC codes). It then sends the information on to the "rules engine", which is operated by a contractor, Client Network Services, Inc. (CNSI), as part of MECMS

within OMS. MECMS has no direct access to ACES but references the RAC codes to process payments. It is in MECMS that the account coding takes place that assigns claims to either Medicaid or SCHIP for payment.

**Cause:** DHHS administers both federal and State funded programs under a single catch-all entity, MaineCare, which results in a lack of clarity regarding individual client eligibility for specific federal or State program benefits. Medicaid, SCHIPS, Dirigo, and non State Supplemental are all treated as MaineCare, with the ACES programming and OIAS policy manuals written accordingly. This conflicts with Departmental obligations to simultaneously administer multiple, distinct federal and State funded programs. The lack of clarity is compounded because, while the OIAS ACES system determines eligibility, the OMS MECMS system determines which program(s) to charge. CNSI controls the program logic governing payments, and because OMS does not have it, OMS could not determine or explain why payments were made for individuals who are not shown as eligible.

DHHS has no policy or procedures to synchronize retroactive changes in client eligibility to payment for those services; no policy or limit regarding how far back to change eligibility status; poor communication between its own offices; ineffective communication with the Department of Administrative and Financial Services - Office of Information Technology; and no control or policy regarding maintaining a permanent audit trail of eligibility determinations in the eligibility systems. However, MECMS downloads from WELFRE and maintains a complete history, which can be researched on an exception basis.

Also, program assignment errors can occur because unique codes are consolidated into one as information moves from ACES to WELFRE. Although none were included in our test sample, certain client eligibility determination codes (MF19, MF31, MFLP, MFSC, MFSP and MFCC) in ACES are summarized into one RAC code (ME) in WELFRE. Individuals in these categories can be eligible for either Medicaid or SCHIP depending on the client's (or client's parents) income and age. Similarly, individuals may be coded eligible as Family Related Adult but be eligible for either Medicaid or the State funded Dirigo program, depending on income. Appropriate assignment to a program requires that income and/or age also be considered, however that information is not transmitted from ACES to WELFRE.

With regard to the existence of other insurance, although the SCHIP client case file noted the existence of other insurance, OIAS did not properly consider it to determine the applicant ineligible, perhaps due to inadequate ACES programming. (Third Party Liability (TPL) information is also obtained by a separate DHHS unit to ensure that Medicaid is the payer of last resort but that TPL information is not incorporated into the ACES system for OIAS use in redetermining eligibility; TPL payments are perceived by OIAS as completely a function of the Office of MaineCare Services.)

**Effect**: Program costs may be charged to the wrong State or federal programs. SCHIP is a much smaller program than Medicaid; it has a higher percentage of federal funding and has only limited funding available. Costs improperly allocated to SCHIP may result in funds not being available to provide services to eligible individuals. Costs may be disallowed for any ineligible client. SCHIP client paid co-pays may have been unwarranted. Medicaid costs are understated to

the extent that they were incorrectly paid by SCHIP. The SCHIP error rates constitute material noncompliance with federal eligibility requirements.

As for ineligibility due to the existence of other insurance, while the other insurance would not cause an individual to be ineligible for Medicaid, it would cause children applying for SCHIP to be ineligible. Incomplete records result in inconsistent and misleading client eligibility information. The deletion or overwrite of client eligibility history by the Bull interface process (ACES to WELFRE) results in the elimination of an audit trail and is, therefore, a control issue.

**Recommendation:** We recommend that the Department:

- Immediately establish a means to adequately trace activities related to the distinct federal and State funded programs, which are administered as MaineCare.
- More clearly define and consistently support the coordination of specific roles assigned to the different agencies responsible for the administration of all DHHS programs, internal and external to the Department, including system operations carried out by DAFS/OIT.
- Establish a policy regarding retroactive determination of eligibility and align the costs to the affected programs.
- Secure and maintain programming logic for all systems activity.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services partially agrees with this finding, and offers the following:*

*OIAS disagrees with the statement "With regard to the existence of other insurance, although the SCHIP client case file noted the existence of other insurance, OIAS did not properly consider it to determine the applicant ineligible". This statement seems to imply that OIAS should find MaineCare Expansion eligible individuals ineligible because they have other health insurance.*

*OIAS does not determine ineligibility for our MaineCare Expansion individuals on the basis of having health insurance. They can be eligible for MaineCare; the issue would be what funding applies, Title XXI or Title XIV. Currently there is no mechanism to ensure that children enrolled in Medicaid expansion bill appropriately to Medicaid (Title XIX) or SCHIP (Title XXI). It should be noted that on average only 10% of this population has insurance coverage other than Medicaid. The Department is currently exploring options to address this issue. Additionally, the Department is transitioning its claims management system to a fiscal agent. As part of that transition, it will be expected that the fiscal agent system, as part of its TPL component, can delineate between those children who do have insurance and those who do not, therefore ensuring appropriate billing to Title XIX or XXI.*

*Specific to the statements regarding the process whereby computer systems (ACES, MACWIS, WELFRE, and MECMS) pass eligibility and RAC Code information between each other, the Department and the Office of Information Technology are reviewing the RAC process as DHHS transitions to a fiscal agent for claims management.*

*There is an effort underway to explore the use and process of Recipient Aid Categories; the intent is to validate the way they are used within the different applications including ACES,*

*MACWIS, WELFRE and MECMS. During fiscal year 2008, the expected outcomes of this group will be:*

- *A documented understanding of how things work today; this document currently does not exist*
- *A list of known issues and potential solutions/corrections*
- *As necessary, recommendations for possible replacement of this process.*

*A list of issues will be prioritized by the different business areas and added to the specific application work plans. The recommendations will be brought to senior management of DHHS and OIT to determine direction and prioritization of this work.*

***Contact:** Jim Lopatosky, DAFS/OIT/DHHS – Information Technology Director, 287-1921*

**(06-67)**

**Finding Title:** Cost of Care not deducted from payments to nursing home providers
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778
**CFDA Title:** Medicaid Cluster
**Federal Award:** 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of MaineCare Services (OMS)

**Finding Type:** Internal control and compliance

**Compliance Area:** Allowable costs/Cost principles

**Known Questioned Cost:** $117
This is the federal portion of an overpayment (3.57% of sample) made by the State to a nursing home provider.

**Likely Questioned Cost:** $3,575,587
The likely questioned cost amount was computed by applying the sample error rate of 3.57% to the population of federal expenditures for the Aged ($100,156,499).

**Criteria:**

- MaineCare Benefits Manual, Chapter 1, §1.09
- MaineCare Eligibility Manual §4400
- Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, Attachment A, paragraph C)

**Condition:** The Maine Claims Management System (MECMS) did not consistently deduct the Cost of Care assessment from payments to nursing homes. Detail testing of a sample of 60 paid claims revealed that a nursing home claim was overpaid because the Cost of Care assessment (co-payment) was not deducted.

**Context:** The State pays nursing home providers for services to Medicaid clients. In some cases, the amount paid by the State should be reduced by an amount the nursing home should be collecting from the client. The portion to be paid by the client is referred to as the Cost of Care.

**Cause:** Logic errors exist in the electronic information system. From the advent of the MECMS development phase to the present, OMS has created 35 change control forms that have noted Cost of Care issues relative to claims processing. The noted deficiencies varied from incorrect Cost of Care amounts being deducted to no Cost of Care being applied to both new and adjustment claims. System users identified the following as possible causes:

- Ineffective system edits
- Illogical programming language regarding claim pricing
- Unsound application patches
- Errors in the placement of decimals during processing
- Interface problems from the Automated Client Eligibility System (ACES) to WELFRE/MECMS resulting in information not carrying over

**Effect**: Overpayments to providers

**Recommendation:** We recommend that the Department close all "open" change control forms regarding Cost of Care. We recommend correction of the logical errors in the MECMS system and recovery of overpayments previously made to providers.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*A change control form was created for this issue (CCF #20060125-5) and was implemented in the first quarter 2006. Cost of Care is appropriately being deducted from nursing home claims at this time.*

*There are other issues related to cost of care and co-payments that are being addressed in a MECMS development initiative – these errors have been scoped and technical requirements have been drafted, and is scheduled for implementation in January 2008.*
*Nursing Homes are cost settled through DHHS Audit division and with the assistance of the Adjustment Unit; the audit scope is being expanded to include incorrectly paid claims, including claims where cost of care was not deducted.*

***Contact:*** *Robin Chacon, DHHS - Office of MaineCare Services (OMS), Claims Director, 287-2769*

**(06-68)**

**Finding Title:** Inadequate control system over multiple authorized rates
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778
**CFDA Title:** Medicaid Cluster
**Federal Award:** 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of MaineCare Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Allowable costs/Cost principles

**Known Questioned Cost:** $23
This is the federal portion of an overpayment made to a provider

**Likely Questioned Cost:** $503,957
The likely questioned cost was computed by applying the sample error rate of approximately 0.29% to expenditures of $172.6 million of Mental Health and Mental Retardation Medical Payments.

**Criteria:**

- OMB Circular A-87
- MaineCare Benefits Manual, Chapter III §41, Day Treatment Services
- MaineCare Benefits Manual, Chapter III §24, Day Habilitation Services for Persons with Mental Retardation

**Condition:** The automated claims billing system does not have adequate internal controls in place to ensure that providers of certain services are being paid the correct amounts by the State. DHHS establishes multiple payment rates within the same procedure code. There is no control to prevent a provider from using billing rates that are higher than the authorized rates for specific service levels.

**Context:** Our sample contained two such transactions. One was billed and paid correctly. The second was paid using an unauthorized, expired rate.

**Cause:** Inadequate controls over the use of procedure codes and procedure code modifiers

**Effect**: Medicaid costs increased due to billing errors or intentional misuse of payment rates within the same procedure code.

**Recommendation:** We recommend that the Department develop the use of procedure codes and procedure code modifiers that will ensure providers are paid correct amounts for services.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*The current MMIS system does not allow for multiple authorized rates for the same provider location; therefore, when multiple FSD rates are authorized, the highest rate is loaded into the MMIS system. The contract includes a Summary of Services which lists each member and the rate the provider is approved for that member.*

*For Section 24, Day Habilitation Services, the DHHS Audit cost settlement report corrects all of the issues cited in this finding, and the CMS 64 report is adjusted appropriately. DHHS believes this is an adequate control to mitigate the risks cited in this finding.*

*For Section 41, Day Treatment Services, there is currently one provider that has two rates on MECMS for that provider ID. During fiscal year 2008, OMS will be reviewing options to correct this situation.*

*Additionally, for other programs that are not cost settled, the Department will review options to correct similar situations, as they exist.*

***Contact:*** *Robin Chacon, DHHS - Office of MaineCare Services (OMS), Claims Director, 287-2769*

**(06-69**

**Finding Title:** Lack of effective policies and procedures to address Medicaid recipient fraud
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778
**CFDA Title:** Medicaid Cluster
**Federal Award:** 05-0505ME5028, 05-0605ME5028, 05-0505ME5048, 05-0605ME5048
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of Integrated Access and Support (OIAS)

**Finding Type:** Internal control and compliance

**Compliance Area:** Special tests and provisions

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Program Integrity: Medicaid (42 CFR §455); Title 22 MRSA §13

**Condition:** DHHS does not have methods and criteria for identifying suspected Medicaid recipient fraud cases. Policies and procedures for investigating and referring suspected fraud cases to law enforcement authorities are insufficient.

OIAS determines client eligibility for the Medicaid program. OIAS does not have the authority or responsibility for determining if the recipient received Medicaid services to which they were not entitled. Because DHHS does not have a policy regarding client overpayments for Medicaid services, overpayments are not quantified, tracked or recovered. Furthermore, because DHHS does not have a policy to assess whether the misrepresentation was intentional, no follow-up of potential abuse or fraud resulting from eligibility determinations takes place.

DHHS Fraud Investigation and Recovery Unit (FIRU) is a part of OIAS. Although allegations of Medicaid recipient fraud may be referred to it by the Program Integrity Unit (PIU), FIRU does little with them. It focuses its work on referrals or overpayments made in the Food Stamp and Temporary Assistance for Needy Families (TANF) programs. Although FIRU adds potentially fraudulent Medicaid recipient claims to overpayment claims prosecuted in these two programs, there is otherwise no effort to identify Medicaid recipient claims. 42 CFR §455.14 requires that the Medicaid agency conduct a preliminary investigation whenever a complaint or identification of a questionable practice is received. Also, 22 M.R.S.A. §13 established FIRU to investigate all fraud involving funds administered by DHHS.

**Context:** The Medicaid program is a $2 billion program that is generally (except for eligibility) administered by the Office of MaineCare Services (OMS).

**Cause:**

- There is a lack of communication and coordination of efforts to identify and investigate Medicaid fraud by various responsible organizational units (i.e. OIAS, OMS, PIU, DHHS Financial Management Services, FIRU, Medicaid Eligibility Quality Control Unit (MEQC) and the Medicaid Fraud Control Unit that is located in the Office of the Attorney General).
- OIAS does not have the authority or responsibility to determine if the recipient received Medicaid services to which they were not entitled.
- FIRU reports difficulty in obtaining information regarding Medicaid overpayments, claims paid, and services provided, which has prevented it from pursuing Medicaid cases.
- Although allegations of Medicaid recipient fraud may be referred to FIRU by the Program Integrity Unit (PIU), it does little with them.
- There is a lack of DHHS policies regarding quantifying, tracking and recovering client overpayments for services.
- DHHS does not have a policy to assess whether the recipient's misrepresentation of information was intended to abuse or defraud the Medicaid program.
- There is no follow-up of potential abuse or fraud resulting from eligibility determinations.

**Effect**: Inadequate referral and follow-through on potential fraud means that program funds are not available for legitimate claims and overall Medicaid costs are higher than necessary.

Individuals who obtain benefits incorrectly, either by intentional or unintentional means, are not identified nor prosecuted; they suffer no consequences. This perpetuates abuse.

Because the established policies and procedures do not adequately address recipient unintentional or intentional misrepresentation, there is no means to quantify the amount and pervasiveness of potential loss or to determine particular areas of higher risk. DHHS could not quantify any Medicaid recoveries relating to client eligibility. DHHS personnel noted minimal recoveries that resulted from prosecution of individuals who received direct payments for falsified mileage reimbursement records and falsified consumer direct attendant records.

**Recommendation:** We recommend that the Department:

- Establish policies and procedures to address authority and responsibilities for personnel involved in all phases of the fraud investigation and recovery processes, including intentional and unintentional misrepresentation of information for eligibility, the identification of ineligible individuals, quantification of the amount of the loss or overpayment, procedures to record and track overpayments and recoveries, and referral to law enforcement officials.
- Consider initiating amendments to State law to provide a means to recover the value of medical benefits provided as the result of intentional or unintentional misrepresentation of personal circumstances by the recipient.
- Establish procedures for the FIRU unit or other responsible personnel to identify potentially fraudulent cases resulting from intentional client misrepresentations and to efficiently access Medicaid claims transactions to determine client claims history for the purpose of determining the potential loss or overpayments.
- Consider establishing a single unit or division to investigate and coordinate all fraud investigation and recovery activities. This unit should be independent and free of influence from program operations.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with the recommendations around establishment of policies and procedures.*

*OIAS does have the authority and responsibility for identifying and investigating recipient fraud, evidenced by the relevant section (sec. 1132) of the MaineCare Eligibility Manual:*

*1132* ***REFERRAL TO THE FRAUD INVESTIGATION UNIT***

*If it appears that a recipient has purposely misrepresented actual circumstances (such as living arrangement, income, or assets) in order to receive Medical Assistance, and the individual would not have been eligible to the same extent had the proper information been available at the time of application, redetermination of eligibility, or within 10 days of the change in circumstances, a referral to the Fraud Investigation Unit will be made. (See Section 1420.).*

*The report will include:*

*I. a detailed explanation of the misrepresentation and the effect it had on eligibility.*

*II. a claims history indicating the services that should not have been paid.*

*Complaints received directly by the Fraud Investigation Unit from the community will be screened through the Director of the Medical Assistance Program to see if the individual is an active or former recipient. The Director will check the status and direct the Fraud Investigation Unit to the proper regional office if eligibility has existed. The Fraud Investigation Unit will then share its information with the regional office which in turn will determine the effect this information has on eligibility.*

*The Department agrees that policies and procedures should be established to address authority and responsibilities for personnel involved in all phases of the fraud investigation and recovery processes. The Department also agrees that referrals for TANF and Food Stamps should be reviewed for Medicaid component, as applicable.*

***Contact:** Barbara VanBurgel, Director, Office of Integrated Access and Support, 287-3106*

**(06-70)**

**Finding Title:** Re-determinations not timely
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778
**CFDA Title:** Medicaid Cluster
**Federal Award:** 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of Child and Family Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Eligibility

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** 42 CFR §435.916

**Condition:** DHHS did not complete timely re-determinations of client eligibility for two of 60 Medicaid non-pharmacy clients who we tested. Both exceptions were Foster Care Title IV-E cases, of which our sample included five. Controls over Medicaid eligibility determinations for cases administered by Division of Regional Operations (DROMBOS) are not adequate.

**Context:** Annual client eligibility reviews are required in order to ensure continuing client eligibility to participate in Medicaid.

**Cause:** No established procedures for timely client eligibility reviews.

**Effect**: Noncompliance with annual eligibility review requirements may result in payments to ineligible participants and unnecessary costs to the program.

**Recommendation:** We recommend that the Department complete all reviews on a timely basis, including those conducted by DROMBOS.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with the recommendation that all eligibility reviews be completed on a timely basis.*

*In the spring of 2007, the staff who complete all eligibility reviews for children in foster care transitioned from the Division of Regional Operations to the Office of Child and Family Services (OCFS). It is a clearly articulated expectation of staff that all eligibility determinations be completed timely.*

*These twelve Financial Resource Specialists are supervised by the Title IV-E Program Specialist. As part of the transition, systems have been established to ensure timely reviews are made in all cases. Staff will continue to be reminded of the important connection between timely determinations, Medicaid, and its effect on funding. Additionally, staff attend monthly meetings and these, along with individual supervision, focus on the importance of timely reviews.*

***Contact:*** *Dulcey Laberge, DHHS - Division of Public Service Management, Director, 287-5064*

**(06-71)**

**Finding Title:** State Income and Eligibility Verification System (IEVS) data exchange noncompliant
**Prior Year Finding:** 05-67
**CFDA:** 93.775, 93.777, 93.778, 93.767, 93.558, 10.551, 10.561
**CFDA Title:** Medicaid Cluster
State Children's Insurance Program (SCHIP)
Temporary Assistance for Needy Families (TANF)
Food Stamp Cluster
**Federal Award:** 05-0505ME5028, 05-0605ME5028
05-0505ME5048, 05-0605ME5048
ME TANF05, ME TANF06
2005IS251444, 4ME400401

**Federal Agency:** U.S. Department of Health and Human Services;
U.S. Department of Agriculture
**State Department:** Administrative and Financial Services (DAFS)
Health and Human Services (DHHS)

**Bureau:** Office of MaineCare Services (OMS)
Office of Integrated Access & Support (OIAS)
Office of Information Technology (OIT)

**Finding Type:** Internal control and compliance

**Compliance Area:** Eligibility

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** 42 CFR §435.910
45 CFR §205.55
42 CFR §435.948(e), 435.953
42 USC §1320b-7

**Condition:** DHHS lacks adequate procedures to make full use of the information obtained through data exchanges and to comply with federal regulations. The Social Security Administration (SSA) transmits data in the form of bi-weekly BENDEX and daily SDX reports to the DHHS for use by the Income and Eligibility Verification System (IEVS) as part of its automated determination of applicant/client eligibility status.

- Caseworkers are not provided with the BENDEX data to establish the client Date of Death. The IEVS data is therefore unavailable to prevent a determination of eligibility. Caseworkers rely on family members or nursing facilities to advise them when a client is deceased.
- DHHS caseworkers do not review the monthly BENDEX error report for incorrect Social Security Numbers (SSN). No automated SSN mismatch reports are generated by ACES from the daily SDX exchange to flag potential SSN discrepancies for resolution by caseworkers.
- DHHS regional supervisors do not use consistent methodologies to review and maintain data obtained from the Internal Revenue Services. DHHS directed supervisors to review the material on a sample basis and to review any effect on clients eligible only for MaineCare as the last priority, after TANF and Food Stamps.
- DHHS did not change its State Verification and Eligibility System (SVES) data transmissions to SSA to comply with their guidelines; prior year audit testing noted that some transmissions were rejected due to coding differences.
- ACES erroneously re-opened Supplemental Security Income (SSI) related cases, previously closed by OIAS, based solely on the identification of a new client SSN provided by the daily SDX exchange.

**Context:** The State uses a single automated system, Automated Client Eligibility System (ACES), to determine individuals' eligibility for major welfare programs, including MaineCare, TANF, Food Stamps, and SCHIP. The State is required to verify the social security number

(SSN) and other information of all recipients of federally-funded aid, and to obtain and use the related data provided by the SSA in subsequent information exchanges to the State to determine the continuing eligibility of individuals.

**Cause:** The data exchanges provide a multitude of data and reports for OIAS's use. Standardized procedures are necessary to ensure consistent and appropriate consideration of all information received. We noted the following:

- Supervisory review procedures are inconsistent because DHHS has not provided supervisors with specific training or guidance to review the IRS data.
- Caseworkers do not review the BENDEX report for incorrect SSN due to time constraints and because DHHS has not corrected a programming error that causes the report to erroneously identify many potential mismatches.
- Policy has been established but procedures are not in place to provide assurance that potential SSN, income, and name errors flagged in ACES reports will be reviewed for resolution by caseworkers.
- The State has not adhered to data coding requirements for State Eligibility Verification Systems (SVES) outbound transmissions.
- ACES does not generate reports for case workers' use for either BENDEX Date of Death information or SDX potentially incorrect Supplemental Security Income Social Security Numbers.

**Effect**: Resolution of potential SSN mismatch errors from these exchanges is critical for case management of Medicaid and SCHIP cases, as well as for TANF and Food Stamps. This is especially true for individuals whose Medicaid cases are SSI related, because they are determined Medicaid eligible based solely upon receipt or eligibility for SSI. DHHS never re-determines client eligibility for such cases because the Department relies on reports generated by ACES to alert caseworkers that clients may no longer be eligible. Also, because client data contained in the SSA systems is primarily SSN driven, discrepancies between SSA and DHHS records must be resolved. Inconsistent use of transmitted data may result in the following.

- Case files may not be closed and benefits not discontinued in a timely manner
- Unresolved potential SSN, income, and name errors in ACES and in any other systems to which the same client information is communicated
- Known programming errors in the reports lessen user confidence in them and cause them not to be used
- Caseworkers must rely on nursing homes and other facilities who receive MaineCare benefits, or relatives, to notify them of a client's death. These facilities do not always track or report this information in a timely manner and may continue to receive monthly medical payments as a result.
- Inconsistent practices to utilize IRS data create the risk that the information may not be utilized as intended or that it may be unintentionally disclosed

**Recommendation:** We recommend that the Department establish policies and procedures to consistently use SSA and IRS data during the client eligibility determination process; to prevent payments to ineligible clients/providers; and to comply with federal regulations.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services and the Department of Administrative and Financial Services agree with this finding.*

*During fiscal year 2007 many of the reports stated in this finding have been corrected. OIAS staff, supervisors and program administrators are provided instructions on handling all IRS information. During fiscal year 2008, OIAS will review the instructions and enhance the policies and procedures as needed.*

***Contact:*** *Brian Guerrette, DHHS/OIT/DAFS, Systems Section Manager, 287-1748*
*Barbara VanBurgel, Director, Office of Integrated Access and Support, 287-3106*

**(06-72)**

**Finding Title:** Client eligibility determinations incorrect and differing between systems
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778, 93.767
**CFDA Title:** Medicaid Cluster
State Children's Insurance Program (SCHIP)
**State Program:** Drugs for the Elderly, Maine Rx
**Federal Award:** 05-0505ME5028, 05-0605ME5028
05-0505ME5048, 05-0605ME5048
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Administrative and Financial Services (DAFS)
Health and Human Services (DHHS)
**Bureau:** Office of MaineCare Services (OMS)
Office of Integrated Access & Support (OIAS)
Office of Information Technology (OIT)

**Finding Type:** Internal control

**Compliance Area:** Eligibility

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** OMB Circular A-102 Common Rule, 45 CFR §92.20; 42 CFR §433.32(a); 42 CFR §433.112, §433.116, §433.117, §433.119, and §433.131

**Condition:** Controls are inadequate to assure that medical claims from providers are paid only for individuals who are eligible for the Title XIX Medicaid and XXI State Children's Insurance Program (SCHIP) programs.

DHHS uses two automated eligibility systems: Automated Client Eligibility System (ACES) and Welfare Information System (WELFRE). ACES is a real time system that receives various data

feeds and automatically acts on information entered to determine eligibility and enroll individuals in programs for which they qualify. WELFRE is another eligibility system, which remains necessary to link ACES to the Maine Claims Management System (MECMS) and to the Maine Point of Purchase System for prescription drugs (MEPOPs.) WELFRE allows data entry but requires human action to determine eligibility and enroll individuals. MECMS does not pay claims based on the eligibility status shown in either ACES or WELFRE for a particular service date, but on the member eligibility tables that are created within MECMS by applying Client Network Services, Inc. (CNSI) Business Rules and Logic to information flowing through the system interfaces. Because the process transfers all records from WELFRE, about 72% of the records are for deceased or otherwise ineligible individuals.

**Context:** We tested the sufficiency of controls over the interface/transmission of client eligibility data and the integrity of this data from system to system. We tested the reasonableness of Medicaid program client count data maintained in ACES and WELFRE, and the reference tables of the Medicaid Management Information System (MMIS)/MECMS, which are used to process claims, prepare reports, and administer the program in OMS. The data processing we tested resulted in the following:

- In the fall of 2005, DHHS certified many individuals, some deceased, as eligible for DHHS programs for which they had not applied. DHHS automated systems generated $10.00 State Supplemental checks to a number of them. Many of those who received the checks, or their surviving relatives, contacted DHHS to complain: they wanted to know how DHHS had obtained their personal information; why very old addresses were being used; and why checks were issued to deceased relatives. Once aware of the problem, DHHS employees stopped some checks from being delivered by changing addresses in ACES from the individuals' addresses to regional DHHS office addresses. Caseworkers repeatedly closed some of the cases but the programming logic within ACES caused them to be re-opened.
- DHHS relies on family members or nursing home employees for notice of death. We noted one overpayment to a nursing home after the death of a client.
- ACES opened duplicate cases and generated unwarranted $10 State supplemental checks due to incorrect entry of social security numbers that did not match those in Social Security Administration income and eligibility (IEVS) data transmissions. Even if caseworkers closed the duplicate cases, the system automatically re-opened them each time the interface ran. ACES does not generate a Social Security Data Exchange (SDX) error report of potential SSN errors.
- Eligibility Start Dates in ACES were not always logical, because some were much later than end dates. These dates were entered by OIT in order to flag incorrect eligibility coverages. However, other system users may not recognize that the data is intentionally illogical.
- MECMS and ACES client eligibility data do not always agree. Seven of the 40 oldest Medicaid clients (18%) examined in June 2006 MECMS records were not eligible: five were deceased (one in 2002, two in 2003 and one in 2005); two were not eligible in

ACES during the year. DHHS did not close ACES eligibility for two of the deceased for more than three years; the third is still open.

- The Office of MaineCare Services (OMS) does not research warning or error messages generated during creation of the member eligibility tables; only "fatal errors" prevent clients from being included in the MECMS eligibility tables. Additionally, the process may not be compliant with federal certification requirements because the results do not seem logical according to OMS personnel. For example, the two stage process for June 2006 showed a higher client count for the second stage than the first.
- OMS is attempting to add Social Security Administration income and eligibility (IEVS) data exchanges to MECMS that duplicate functionality that OIAS already has in ACES.

**Cause:**

- On August 7, 2005 OIAS performed a "data dump" moving information of the State funded Drugs for the Elderly and MaineRx programs from the legacy WELFRE system to ACES. When the information was housed in WELFRE, OIAS determined eligibility manually, based on information from individuals applying for assistance. When the data dump occurred, ACES automatically processed the old data from WELFRE, resulting in the unwanted and erroneous eligibility determinations and check issuances.
- Incorrect entry of social security numbers and lack of error reporting caused ACES to open duplicate cases, even after manual attempts to close the case. Programming causes cases to reopen repeatedly.
- The causes for the MECMS member eligibility table logic discrepancies are unknown at this time because CNSI did not document the code used to generate the reports that result in the creation of the monthly client files and the person who wrote the code left the company.

**Effect**: The nature of the programs is such that, for the most part, although there were errors in eligibility, they did not result in overpayments. The overpayments that did occur were for small amounts and, other than one, were for direct payments to individuals and not overpayments for medical services provided.

The client eligibility data recorded in the major DHHS program systems should be the basis for all payments charged to federal and State programs administered by the Department at some level; therefore systemic errors may have a material impact to financial statements in which related expenditures are ultimately charged. The reasonableness of this data should, therefore, provide some assurance that OMB A-133 eligibility and allowable cost/activity requirements were met, in regard to federal programs administered under MaineCare.

Some methods used by OIAS to systematically re-determine the program eligibility of individuals in ACES solely based on all data recorded in the WELFRE system or by the override of ACES systematic rules (the "rules engine") impacts the integrity of client eligibility data recorded in ACES as well as the payment systems that receive this information. Furthermore, the family members of some deceased persons on behalf of whom eligibility was determined in this method were forced to experience unnecessary emotional distress as a result, while others may have ignored letters and payments sent in error.

For a real-time system, like ACES, which interfaces with a number of systems on a regular basis, it is not reasonable that OIT personnel run "data fixes" to intentionally create illogical start dates for client program eligibility, in an effort to make them readily identifiable to caseworkers. Some systems and reports obtain client eligibility data from ACES by start date and some obtain it by end date to determine or account for DHHS program participation, and there is no guarantee that these dates will always be viewed in the same context.

The Social Security Administration has an agreement with the State OIAS operations that the data from IEVS (SDX/BENDEX/Buy-In) interfaces is to be used to facilitate client eligibility determinations on a large scale basis (in ACES). If utilized without complete individual client case knowledge or appropriate OIAS caseworker review, efforts by OMS to add this functionality to MECMS seem duplicative and potentially detrimental to the integrity of client member reference tables used by the MMIS (MECMS) system operations for the processing of claims for payment.

**Recommendation:** We recommend that the Department:

- Immediately establish a means to adequately trace the Departmental activities related to the distinct federal and State funded programs which are administered under the single catch-all entity (MaineCare).
- More clearly define and consistently support the coordination of specific roles assigned to the different agencies, internal and external to the Department, responsible for the administration of all DHHS programs, including system operations carried out by DAFS/OIT.
- In order to ensure the continuity of operations and the provision of vital services, we recommend that the Department immediately establish an effective means to comply with IEVS requirements that has been established in documented Department policies and procedures.
- Establish policies to provide assurance that IEVS information will be consistently and actively used during the client eligibility determination process.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with the finding, and offers the following:*

*(1) The Department agrees that the Maine RX/DEL conversion done in August 2005 increased the possibility of erroneous checks being generated due to existing issues with the SDX interface. The Department has taken steps to improve the filters on the SDX interface. Based on the filters, the Department will create suspense records for case worker review rather than automatically opening a new case. Currently, when the worker finds that a duplicate case was opened, the worker is instructed to correct the mismatched data so that when information from SDX is sent to ACES again, it will not create a duplicate case.*

*(2) The Department does rely on family members, yearly reviews or notification from the facility for notices of death. There is an ACES report, CME 007 – "Cases Where BENDEX Shows Client Deceased." This is populated from the BENDEX inbound*

*interface. Staff still need to follow up to confirm data on this report as it is not always accurate.*

*(3) System start dates that are much later than the end dates in ACES is a design mechanism to invalidate a case record.*

*(4) There has been an issue where client eligibility data in MECMS and ACES does not agree. This can sometimes result in cases being closed in ACES and not in WELFRE / MECMS. This flaw has been identified and is being corrected.*

*(5) A Steering Committee has been established to oversee WELFRE repairs, resolve open issues and put manual cross checks in place in the interim. The Committee will also define our interface strategy with the Fiscal Agent which may include a direct interface between the Fiscal Agent and ACES, eliminating WELFRE.*

***Contact:*** *Tom Keyes, DHHS – OIAS, Deputy Director, 287-2310*

**(06-73)**

**Finding Title:** Reported client counts inaccurate
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778
**CFDA Title:** Medicaid Cluster
**Federal Award:** 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
Administrative and Financial Services (DAFS)
**Bureau:** Office of Integrated Access & Support (OIAS)
Office of Information Technology (OIT)
Office of Medicaid Services (OMS)

**Finding Type:** Internal control and compliance

**Compliance Area:** Eligibility

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:**
Standards for financial management systems: Accounting records; Internal control (45 CFR §92.20 (b)(2)(3))

**Condition:** DHHS is not able to support MaineCare client case counts included on various management reports. OIAS and OIT are responsible for correctly reporting client data on program eligibility; OMS does not perform tests to ensure the accuracy of client data.

- Client counts reported were not consistent between reports for the same period. Between two reports that should contain identical information, the case count totals varied by 876 cases; totals by county varied by as much as 6,000 clients.
- Client counts were overstated; reports included deceased clients. Client data provided by OIT-MECMS, OMS and OIAS included deceased persons: 335 in MECMS, 128 in OMS and 110 in OIAS ACES data.
- DHHS could not replicate queries to support reported information and could not always tell what information was being included in each category.

The Automated Client Eligibility System (ACES) is not designed to systematically identify the individuals counted in management reports, requiring OIT personnel to query ACES for the data. However, the exact client data that ACES counts for each category identified in summary reports can not be traced to the underlying case records maintained in ACES. ACES coding does not clearly identify the State and federally funded programs for which individuals are eligible. Controls to ensure the accuracy of data provided as support are, therefore, inadequate. We note that the Department sometimes uses the term MaineCare synonymously with Medicaid, but MaineCare includes several other State and federally funded programs.

Version controls over reports run in ACES are inadequate. At times, client count reports are generated manually using an old and outdated version of the program script. To correct such an error, the report is re-run with the current script version. The client count report generated by ACES queries for May 2006 and October 2005 summaries were incorrect (about 71,000 less than typical for the month). OIT personnel did detect and correct the May 2006 report, but not the October 2005 report.

**Context:** ACES has evolved into the central intake and eligibility application for State and federal program assistance. OIT is responsible for the maintenance and functionality of ACES and the other computer systems used for the administration of all major DHHS programs.

OIT personnel, who run and review these reports, rely on the experience and observation of others to identify instances in which report results appear incorrect.

**Cause:** The system is not programmed to verify that individuals counted in management reports have underlying client records maintained in ACES. Version controls for summary reports are not in place.

**Effect**: Client count data is misstated and could not be traced to underlying records in ACES.

The individuals counted in these reports are used as the basis for Department-Wide cost allocations. Without adequate support or controls to provide assurance regarding the clients counted, only minimal reliance can be placed upon the accuracy of the cost allocations based upon ACES reporting of program client counts.

**Recommendation:** We recommend that the Department establish a means to consistently provide accurate eligible client count information for federal and State funded programs, which are administered under the single catch-all entity MaineCare.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services and the Department of Administrative and Financial Services partially agree with this finding.*

*We are in agreement that there are known problems in the sharing of data between ACES, WELFRE and MECMS and we have projects under way addressing some of these issues. The projects are due for completion summer 2008.*

*However we disagree with part of the finding where the reports examined should all yield the same counts/data. The reports identified in this audit are designed to meet specific needs of OIAS and look at the data in different ways. Certain programs may be included or excluded as needed and counts may be produced at a case or client level. Some results cannot be reproduced because it is a point in time look at the data. Even if it isn't this type of report the retroactive eligibility associated with Medicaid will constantly change numbers for prior periods.*

***Contact:*** *Brian Guerrette, DHHS/OIT/DAFS, Systems Section Manager, 287-1748*

***Auditor's Conclusion:*** While we agree that summary reports can and should be structured to look at data in various ways, the reports that we examined contained data specific to Medicaid. The client counts should have agreed as the reports were generated within a few days of each other, from ACES data, for the same prior month period.

The finding remains as stated.

**(06-74)**

**Finding Title:** OMS unauthorized approval of non-timely filing
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778, 93.767
**CFDA Title:** Medicaid Cluster
State Children's Insurance Program (SCHIP)
**Federal Award:** 05-0505ME5028, 05-0605ME5028
05-0505ME5048, 05-0605ME5048
05-0405ME5021; 05-0505ME5021
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of MaineCare Services (OMS)

**Finding Type:** Internal control and compliance

**Compliance Area:** Period of availability

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** 42 CFR §447.45(d)(1)

**Condition:** OMS did not obtain official federal approval to change claims filing, correction and adjustment deadlines, although it verbally discussed the changes with the Centers for Medicare and Medicaid Services (CMS) prior to implementation.

On June 1, 2006, OMS issued an advisory to all MaineCare providers that extended the claims filing deadline from the "allowable 12 months" to 20 months from the date of service; under certain circumstances extended the claims filing deadline to 23 months; and provided a further extension if there was evidence of a prior timely filing. OMS also waived the requirement that corrected claims be resubmitted within one year, and also waived the 120-day requirement for adjustments.

**Context:** In January 2005, DHHS implemented a Medicaid claims payment management system (MECMS) that failed to work properly. The system failed to process many provider claims, could not issue timely payments or denials, and did not have the capacity to make claims adjustments within the required 120 days.

**Cause:**
OMS granted time extensions to providers because it believed these were necessary and appropriate due to the ongoing lack of MECMS functionality.

**Effect**:
- The General Fund may be liable for all claims processed in accordance with the June 1, 2006 advisory.
- The federal government could impose financial sanctions because the revised deadlines do not comply with federal requirements. However, a CMS official indicated that CMS was more interested in the State coming into compliance with federal requirements in January 2007, as promised.

**Recommendation:** We recommend that OMS continue working toward resolution with CMS and the MaineCare provider community.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*In January of 2005, DHHS implemented a Medicaid Claims Payment Management System (MECMS) that failed to work properly. The system failed to process many provider claims, could not issue timely payments or denials, and did not have the capacity to make claims adjustments within the required 120 days.*

*In February of 2006, the State of Maine revised Chapter I of the MaineCare Benefits Manual Timely Filing Requirements to read:*

*1.10-2 Time Limit for Submission of Claims*

*The following time limits apply unless waived under special circumstances by the Department,* ***such as the Department's inability to process claims and/or adjustments:***

*Providers have one (1) year from the date services are provided to bill the Department, regardless of when eligibility is verified. Since it is the responsibility of providers to verify eligibility, members may not be billed for covered services that have been denied by the Department for exceeding the one (1) year limit for claims submission because the provider did not verify eligibility.*

*During this time, OMS leadership was actively engaged in conversations with CMS and believed there was implied consent for waiver of the timely filing requirement based on significant deficiencies that hindered the timely processing of claims.*

*The 120-day rule for processing adjustments is a state only requirement:*

*1.12-1 Underpayments*

*If a provider believes an underpayment has been made for covered services rendered, based upon policy and procedures as described in this Manual, the provider should accept and cash the check issued for the services provided.* ***The provider must request a review of payments within one hundred and twenty (120) days of the remittance statement date*** *or waive*
*Effective* *any right to a review of that payment. The provider must request a review of*
*2-2-06* *the payment in writing and attach a copy of the remittance statement page indicating the underpayment.*

*Consequently, OMS exercised the right to waive this requirement due to the absence of system functionality to process adjustments in MECMS.*

*Initial timely filing conversations with CMS began in late 2005, to secure support to waive the timely filing limit due to system deficiencies and the in ability to receive and process claims. In June 2006, OMS and DHHS leadership corresponded in writing to continue to pursue approval to extend timely filing requirements to 18 months for claims submissions. In a written response from CMS, it was acknowledged that OMS would notify providers of the expiration of this extension as of January 1, 2007. A listserv e-mail was sent to providers on December 29, 2006.*

*There are still deficiencies in the current MMIS system which prevent the timely processing of certain types of claims (i.e. hospital crossover claims) and discussions are continuing with CMS to identify these exceptions and explore workarounds to resolve these issues.*

***Contact:*** *Robin Chacon, DHHS - OMS, Claims Director, 287-2769*

**(06-75)**

**Finding Title:** Third Party Liability collections and cost avoidance data not reported
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778
**CFDA Title:** Medicaid Cluster
**Federal Award:** 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of MaineCare Services (OMS)
Office of Management and Budget

**Finding Type:** Internal control and compliance

**Compliance Area:** Reporting

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Preparation of the Quarterly Statement of Third Party Liability (TPL) Collections and Cost Avoidance Form (§2500.3 Federal State Medicaid Manual)

**Condition:** DHHS did not report Third Party Liability (TPL) information to the Centers for Medicare and Medicaid Services (CMS) for the period January 1, 2005 to June 30, 2006. On September 30, 2006, DHHS reported the omitted information on a cumulative basis. DHHS still did not report required Cost of Avoidance information for most Medicaid activity.

**Context:** Medicaid is intended to be the payer of last resort. DHHS' TPL Unit ensures that all potential payers of medical services are requested to reimburse the program in order to offset expenditures. TPL recoveries and cost avoidance efforts directly result in millions of dollars in taxpayer savings for the Medical Assistance Program.

On an annual basis, the Division of Financial Management in the Center for Medicaid and State Operations extracts TPL cost avoidance and collections data reported by the States on a quarterly basis to CMS on the CMS-64 Report. The data is used by CMS central office and regional office personnel to monitor and evaluate the effectiveness of States' TPL activity based on the varying methods used for recoveries. In addition to TPL data, State-reported total computable medical assistance payment (MAP) data (exclusive of adjustments) are extracted and presented to show the total TPL to total expenditures for Medicaid services.

The State's new Medicaid Management Information System (MMIS) is still unable to generate cost avoidance data in terms of dollars saved; however, this data on behalf of pharmacy claims processed on the State's point-of-purchase system (MEPOPS) is available for reporting purposes.

**Cause:**

- Lack of a functioning TPL subsystem in the Maine Claims Management System (MECMS)
- Confusion over TPL reporting responsibilities and restructuring of the State Medicaid agency

**Effect**: The program's financial reports have been incomplete and potentially misleading. Monitoring and evaluation of TPL collection and cost avoidance have been diminished because information has not been reported. In addition, past and future efforts will continue to be hampered because (except for pharmacy related claims) the State has not yet developed systems and procedures resulting in the reporting of cost avoidance.

**Recommendation:** We recommend that the Department:

- Develop and implement the needed change controls in MMIS in order to generate the necessary system critical reports denoting TPL collections and cost avoidance data.
- Timely communicate all TPL collections and cost avoidance data for inclusion in the program's quarterly expenditure report.
- Ensure that all duties are identified and re-assigned, if necessary, whenever there is an organizational change.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

1) *TPL will continue to use the current method of reporting collections by gathering and preparing a spreadsheet that calculates collection figures for each of the TPL recovery areas using the weekly WELFRE Member TPL Financial reports until such time as the Fiscal Agent TPL sub-system is available. Medical claim cost avoidance reports are being developed and tested at this time and should be available by 9/30/07. This information will be combined with the pharmacy cost avoidance information on future CMS64 reports and TPL will report the information that we have been unable to obtain until now for the previous quarters as soon as that information becomes available.*

2) *TPL will communicate collections and cost avoidance data to the individual involved in the preparation of the program's quarterly expenditure report within 21 days of the end of the quarter.*

3) *Reporting requirements have been documented, documentation will be kept current, and staff has been cross trained in order to ensure that all reporting duties are reassigned properly and timely in the event of a future organization change.*

***Contact:*** *Rossi Rowe, DHHS - Third Party Liability, Division Director, 287-1838*

**(06-76)**

**Finding Title:** Medicaid financial reports do not satisfy requirements
**Prior Year Finding:** 05-30
**CFDA:** 93.775, 93.777, 93.778
**CFDA Title:** Medicaid Cluster
**Federal Award:** 05-0505ME5028, 05-0605ME5028, 05-0505ME5048, 05-0605ME5048
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of Management and Budget

**Finding Type:** Internal control and compliance

**Compliance Area:** Reporting

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** 45 CFR §92.20

**Condition:** DHHS reports of its expenditures for the Medical Assistance Program, Medicaid, are based largely on estimates rather than actual recorded expenditures. The State Medicaid Manual and other Centers for Medicare and Medicaid Services (CMS) guidance requires that only expenditures for which all supporting documentation is readily available and only actual recorded expenditures should be reported.

We tested the accuracy and propriety of the quarterly expenditure report for the quarter ended September 30, 2005 and noted the following:

- Certain State match amounts (also known as certified seed) totaling $55 million were reported based on mathematical calculations with no supporting documentation.
- Waiver expenditures were not broken out, were not reported by fiscal year, and were improperly aggregated as current quarter expenditures.
- The allocation factors applied to prospective inpatient and outpatient hospital payments for reporting purposes were carried forward from a previous reporting period and were not adjusted to reflect current quarter activity.

For the audit period, the federal share of actual expenditures reported included approximately $131 million in "Interim Payments," which consist of actual payments made to providers based on estimates, not actual provider claims.

**Context:** The federal government funds approximately 64% of the State's Medicaid program; the federal share of reported Medicaid expenditures is $1.6 billion. DHHS was reorganized at the beginning of the fiscal year to include the previously separate Department that administered mental health, mental retardation and substance abuse programs. DHHS activated a new Medicaid claims management information system (MMIS) in January 2005, called the Maine Claims Management System (MECMS). That system did not meet all Medicaid requirements

and caused significant disruptions in program operation. Many claims became suspended in the system, limiting payment and reporting of actual claims, and leading to payment based on estimates. At the end of fiscal year 2006, DHHS reported $507 million as interim (estimated) payments. DHHS is now trying to recover those payments from the providers; $184 million remains outstanding.

**Cause:** DHHS has used estimates to report "Certified Seed" for some time, in part because the actual expenditures were incurred by agencies outside of DHHS and the actual expenditure information was not readily available to program accountants. Also, DHHS believed that reporting the calculated estimate was acceptable to the federal oversight agency. We do not question costs as our analysis shows that actual qualifying matching expenditures appear to exceed the amount reported.

MECMS, implemented in January 2005, has not functioned properly and is incapable of generating reports that break out waiver expenditures by fiscal year. Further, the system cannot generate the hospital claims data used to calculate the payment ratios needed to distribute inpatient and outpatient hospital services for reporting purposes.

**Effect:** The cost of providing Medicaid services is obscured to the extent that financial reports include estimates, require adjustment, and are not final. Estimated payments may not represent actual claims, may require recoupment from providers and repayment of the federal share. Changes to reported expenditures have a direct effect on the program's grant award for the next period; as expenditures are reduced, so is the award. The State is not in compliance with reporting instructions promulgated in §2500 of the State Medicaid Manual.

**Recommendation:** We recommend that the Department:

- Report actual State match expenditures.
- Segregate and separately report Medicaid waiver program expenditures .
- Determine the appropriate distribution percentages to be applied to prospective hospital payments and prepare the necessary CMS-64 adjustment to properly apportion costs .
- Reconcile the total amount paid in interim claims to the total actual claims submitted that warrant payment and then collect any overpayment or pay any additional amount due.

**Management Response/Corrective Action Plan:** *Recently there has been a significant change in the reporting capability within MECMS/MMDSS allowing for improved reporting including submission of the CMS 64. Below are management's responses to the recommendations.*

**Recommendation:** We recommend that DHHS: Report actual State match expenditures

***Response:*** *The calculation of State match amounts (certified seed) is a result of data being reported in two Approp Orgs yet combined for reporting purposes. Although a merged Department, the accounting structure still separates former BDS and DHS. The Department is researching options to obtain documentation that would support the certified seed reported on the CMS 64. For submission of fiscal year 2010/2011 biennial budget, all MaineCare expenses will be reflected in one Approp Org. Management has begun working with all parties to allow*

*the accounting system to more closely represent the activities and reporting requirements of DHHS.*

**Recommendation:** Segregate and separately report Medicaid waiver program expenditures

***Response:*** *Effective with the 3/31/07 CMS 64, the HIV Waiver expenditures were broken out by year of service as required by CMS including adjusting all prior 8 quarterly HIV Waiver reports. By 6/30/07 it is anticipated that all Childless Adult Waiver expenditures will be broken out by year of service including all prior quarter adjustments to meet CMS 64 requirements.*

**Recommendation:** Determine the appropriate distribution percentages to be applied to prospective hospital payments and prepare the necessary CMS-64 adjustment to properly apportion costs

***Response:*** *With the development of MMDSS for MECMS the Department is developing the reporting capability that will produce the appropriate cost distribution for hospital PIP payments that will meet the needed CMS 64 requirements. The allocation process will be based on prior period cost reports as provided by the Department's Office of Audit.*

**Recommendation:** Reconcile the total amount paid in interim claims to the total actual claims submitted that warrant payment and then collect any overpayment or pay any additional amount due.

***Response****: The Department provides CMS a quarterly reconciliation between the current balance of interims and the amount reported on the CMS 64. Interim payments were payments made in lieu of claims unable to process through MECMS upon its implementation in January of 2005. They were estimated based on prior claims payments. It is appropriate to ensure that providers were not overpaid (interim payments equal outstanding claims issues); or in the case of overpayment, ensuring that those funds are recovered and the expenditure offset by that recovery. There is a significant effort being conducted at OMS on interim payment reconciliation. That effort involves ensuring that any interim overpayments are returned to the State and the federal share returned to the federal government.*

***Contact:*** *Colin Lindley, DAFS, DHHS Service Center - MaineCare Finance, Director, 287-1855*

**(06-77)**

**Finding Title:** HCBS Waiver annual report data can not be verified
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778
**CFDA Title:** Medicaid Cluster
**Federal Award:** 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Adults with Cognitive & Physical Disability Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Reporting

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** The State Medicaid Manual, §2700.6 et seq. requires the State to provide annual waiver assurance by submitting the Form CMS-372(S).

**Condition:** Information reported on the 372 report cannot be verified.

**Context:** A primary compliance requirement that a State must satisfy to participate in the Waiver is that the average costs for clients enrolled in the Home and Community Based Services Waiver program not exceed the average costs to Medicaid of providing services to clients in an Intermediate Care Facility. The 372 report includes the calculations that demonstrate compliance with the requirement. The report also summarizes Waiver expenditures by category and serves as a means for the federal government to monitor the Waiver.

**Cause:** After January 2005, the Muskie Institute obtained data for the report by querying the Maine Claims Management System (MECMS). MECMS has had issues in processing claims and lacks certain functionalities; data may not be complete. The Muskie Institute cautioned that the data it provided are "…."as is" and should be used with appropriate caution." Because of MECMS processing issues, the State made "interim payments" to many of the Waiver providers based on estimated, not actual, costs.

**Effect**: Users of the report must consider it in light of the disclaimer associated with the underlying data and take into consideration any effect that the interim payments and other claims processing issues may have.

**Recommendation:** We recommend that the Department retain all supporting information for the report and appropriately caution any report users of the potential that it may be incomplete or contain errors or inaccuracies.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*CMS is aware of reporting issues. The Department is in the process of transferring responsibility for claims processing to a fiscal agent. As part of the transition, the fiscal agent will be required to provide standard Medicaid reports.*

***Contact:*** *Jane Gallivan, DHHS - Program Systems Director, 287-4212*

**(06-78)**

**Finding Title**: Incorrect coding of crisis intervention services
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778
**CFDA Title:** Medicaid Cluster
**Federal Award:** 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Adults with Cognitive & Physical Disability Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Internal control and compliance

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:**

- MaineCare Benefits Manual §21.05-1, The Individual Plan should describe at a minimum:
  - 1) The medically necessary services to be provided
  - 2) The frequency of provision of the services
  - 3) The type of providers authorized/eligible to furnish the services
- MaineCare Benefits Manual §21.06-7 Crisis Intervention Services are required to be documented for the member in the provider's case record, including the scope, intensity, duration, intent and outcome of crisis intervention services.

**Condition:** The Home and Community Based Services Waiver Program established payment rates for one client who was the sole resident of the provider's program, by dividing the provider's estimated costs in two, coding half to Personal Support Services and half to Crisis Intervention Services, using 168 hours (7 days X 24 hours) each week as the base for each rate. The Individual Care Plan did not provide any breakdown of the amounts or frequencies of either service. The provider's budget for this one client included 8.5 full time equivalent personnel and estimated costs exceeded $400,000.

We confirmed that the services were provided. However, the provider's care notes did not distinguish between the categories of service although the total hours billed were supported. The provider expects the client to need 40 hours of service each 24 hour day; the provider charges any service over 24 hours a day to Crisis Intervention.

The Program paid the provider $140,381 for "Crisis Intervention" for this client in fiscal year 2006.

**Context:** The Home and Community Based Waiver Program expends approximately $221 million annually for about 2600 clients. Of that, Personal Support Services expenditures

constitute about $100 million for about 1,400 clients and Crisis Intervention Services about $1 million for about 50 clients.

**Cause:** The Medicaid Claims Management System has a limit check of 168 hours each week for Personal Support Services. Since the limit check rejected the extra hours of services, two charge codes were used. One charge code was for Personal Support Services and the other for Crisis Intervention Services.

**Effect**: Miscoding the cost of services distorts accounting for the use of Waiver funds and the cost of providing services on both an individual and aggregate basis. Failure to complete Individual Care Plans adversely affects their ability to serve as a means to document the Program's identification of client needs and the allocation of sufficient, specific resources to meet them.

**Recommendation:** We recommend that the Home and Community Based Services Waiver Program code expenditures consistent with Waiver definitions and include all required components in each Individual Service Plan.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with the finding.*

*The Department agrees past limitations within the claims system may have resulted in some limited distortion of services provided. In the case cited, crisis services were billed when a 2:1 staff to consumer ratio was needed to prevent a likelihood of a crisis situation developing.*

*This fall the Department will be moving to a standardized and published rate system which will remove any appearance that rates having been arbitrarily set.*

***Contact:*** *Jane Gallivan, DHHS - Program Systems Director, 287-4212*

**(06-79)**

**Finding Title:** Inadequate follow-up in cases of possible fraud
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778, 93.767
**CFDA Title:** Medicaid Cluster
State Children's Insurance Program (SCHIP)
**Federal Award:** 05-0505ME5028, 06-0605ME5028, 05-0505ME5021, 05-0605ME5021
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Department of Health and Human Services (DHHS)
**Bureau:** Office of MaineCare Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Special tests and provisions

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** 42 CFR §455 Subpart A; 42 CFR §457 Subpart I

**Condition:** A lack of staff has caused delays in the Program Integrity Unit's (PIU) investigations of possible provider fraud. As of June 30, 2006, PIU had 190 open provider investigations. Of the six that we examined, PIU was not actively working two and had no one available to conduct an "informal review" of a third.

**Context:** DHHS Medicaid and SCHIP expenditures exceed $2 billion. The Program Integrity Unit has three remaining full time staff.

**Cause:** DHHS has reassigned two of five PIU staff to assist in other areas.

**Effect**:

- Fraud investigations are not timely
- Possible recoveries of federal and State funds are not obtained
- Possible fraudulent Medicaid provider billings are not detected

**Recommendation:** We recommend that the Department make sufficient resources available to the Program Integrity Unit so that it can timely complete its investigations.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with the recommendation.*

*In the fiscal year 2008/2009 biennial budget, the Legislature appropriated funds and positions to the Program Integrity Unit. This will enhance the current processes that DHHS uses to be compliant with the federal requirements for monitoring the Medicaid program for fraud and abuse.*

***Contact:*** *Herb Downs, DHHS, Office of Audit - Director, 287-2778*

**(06-80)**

**Finding Title:** Controls do not ensure adequate program integrity and adequate surveillance and review
**Prior Year Finding:** 05-63
**CFDA:** 93.775, 93.777, 93.778, 93.767
**CFDA Title:** Medicaid Cluster
State Children's Insurance Program (SCHIP)
**Federal Award:** 05-0505ME5028, 05-0605ME5028, 05-0505ME5021, 05-0605ME5021
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of MaineCare Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Special tests and provisions

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:**
- 42 CFR §455, §456, §457 (Subpart I)
- MaineCare Benefits Manual, Chapter I §1.17-1.18

**Condition:** DHHS does not have adequate internal controls in place to ensure the ongoing evaluation, on a sample basis, of the need for and the quality and timeliness of Medicaid services. DHHS does not have a post payment review process that allows State personnel to develop and review recipient and provider service profiles; nor to identify exceptions so that misutilization practices can be corrected.

**Context:** DHHS Medicaid and SCHIP expenditures amount to approximately $2 billion. Utilization controls are necessary to safeguard against unnecessary or inappropriate use of services.

**Cause:**
- The Surveillance Utilization Review (SURS) subsystem of the State's new claims processing system is not currently functional
- Lack of specialized software

**Effect**:
- Noncompliance with utilization control requirements
- Impaired ability to identify unusual payments that may result in failure to recover inappropriate payments

**Recommendation:** We recommend that the Department:

- Fully implement the SURS subsystem as a core Medicaid Management Information System (MMIS) subsystem.
- Develop a post-payment review process that reviews recipient utilization and provider service profiles and identifies exceptions to correct misutilization practices.
- Procure specialized software to allow the SURS unit to download and convert data from the claims processing system for subsequent analytical purposes.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*DHHS agrees that the current claims system does not have the capability to produce the sampling reports needed to evaluate services. Meanwhile, DHHS is working with the Office of Information Technology to develop COGNOS cubes which will provide limited profile data (anticipated implementation date: Late 2007). As the Department transitions MECMS to a fiscal agent, it will ensure that a comprehensive SURS component be included (anticipated implementation date: Early 2008).*

***Contact:*** *Herb Downs, DHHS, Office of Audit - Director, 287-2778*

**(06-81)**

**Finding Title:** Claims processing and information retrieval system deficient
**Prior Year Finding:** 05-03, 05-31, 05-56
**CFDA:** 93.775, 93.777, 93.778,
**CFDA Title:** Medicaid Cluster
**Federal Award:** 05-0505ME5028, 05-0605ME5028, 05-0505ME5048, 05-0605ME5048
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
Administrative and Financial Services (DAFS)
**Bureau:** Office of MaineCare Services (OMS)
Office of Information Technology (OIT)

**Finding Type:** Internal control and compliance

**Compliance Area:** Special tests and provisions

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** 42 CFR §433.10-§433.131; 45 CFR §92.20; Section 11300 State Medicaid Manual

**Condition:** DHHS has been unable to make the Maine Claims Management System (MECMS) function properly. Four of six core subsystems do not accomplish all federally required functions

and objectives for a Medicaid Management Information System (MMIS). Deficiencies include the following:

- The Claims Processing Subsystem cannot:
  - Ensure that all input submitted is processed completely
  - Ensure that reimbursements to providers are rendered promptly and correctly
  - Provide a prompt response to all inquiries regarding the status of any claim
  - Identify Third Party Liability (TPL) and assure that Medicaid is the payer of last resort
- The Recipient Subsystem cannot support TPL recovery activities
- The Surveillance and Utilization Review (SURS) Subsystem cannot:
  - Develop a comprehensive statistical profile of health care delivery and utilization patterns established by provider and recipient participants
  - Use computerized exception processing techniques to perform analyses and produce reports
- The Management and Administrative Reporting Subsystem has limited ability to:
  - Report information to assist management in fiscal planning and control
  - Produce program data necessary for Medicaid reporting
  - Monitor third party liabilities and recoveries required by the State plan
- MaineCare reports are created outside of MECMS by "workarounds" designed by the University of Southern Maine, Muskie Center, under contract with DHHS
- From July 1, 2005 through June 30, 2006, OMS staff submitted 1,180 change control forms to the system developer to fix claim pricing errors, permission matrix problems, and edits that failed or were bypassed

- Examples of specific processing problems follow:
  - MR waiver claims rejected due to interface problems between MR Enterprise Information System and MECMS
  - Some claims processed through the Fund Exception Matrix with no assigned accounting string
  - Claims paid at the wrong federal financial participation (FFP) rate
  - Insufficient cycle summary reports on dollar amounts paid to program providers, funds used, and accounts debited or credited
  - Duplicate payments made to providers that could not be quantified
  - A high volume of Suspended claims
  - Inability to re-price Void and Adjustment claims
  - Untimely hospital cost settlements using non-current data
  - Incorrectly priced Part B Medicare crossover claims
  - Failed processing system edits, as well as edits set to "ignore"
  - Claims in processing failure status
  - Noncompliance with Health Insurance Portability and Accountability Act (HIPAA) claims format

**Context:** Medicaid is a $2 billion federally and State-funded program. The Claims Management Information System is essential to its operation.

**Cause:** DHHS converted to the new MMIS prematurely. The initial system breakdown can be attributed to the following:

- An inadequate system development effort
- Lack of a formal risk management process
- Lack of effective testing before going into production
- Procuring the services of a software vendor unfamiliar with the processing of medical claims

**Effect:** MECMS problems have severely inconvenienced Medicaid providers; they continue to incur additional expenses, while trying to be reimbursed for services rendered. System problems caused hundreds of thousands of provider claims to "suspend" or fail to completely process, causing providers not to be paid. To provide cash flow that would allow the providers to stay in business, the State issued "Interim Payments" that were intended to approximate normal payments. As of June 30, 2006, Interim Payments totaled approximately $507 million. Lesser amounts continue to be paid in fiscal year 2007.

Interim Payments are not associated with actual claims. As the System started to process actual claims, some providers were overpaid, as they received both types of payments. The State is now attempting to reconcile the Interim Payments to actual provider claims: to determine how much is still owed providers and to recover overpayments. The State estimated that approximately $21 million might not be collectable.

For two fiscal quarters, the federal government required the State to report not only the actual cash recoupments but also the amount of any provider agreements as adjustments on the State's Medicaid quarterly financial reports. The reductions of expenditures will result in reductions of the State's future Medicaid grant award and also the amount of federal cash available to be drawn.

The State is itself experiencing cash flow and budgetary concerns because of MECMS. The State's General Fund temporarily absorbed the federal share of the $56 million of provider agreements reported but not actually recouped. Also, the federal government refused to share in costs associated with the flawed implementation resulting in extra costs paid from State resources. In addition to the original project contractors, the State has engaged other consultants to assist with the implementation and also to make recommendations to restructure the Office of MaineCare services. Consultants now provide some of the ongoing management of MaineCare. Costs for one consultant exceed $13 million; MECMS contractor and consultant costs to date are more than $64 million. The System was originally expected to cost approximately $16 million.

The State engaged an actuary to estimate its liability for Medicaid claims incurred but not paid (IBNP). At June 30, 2006, the actuarial estimate for IBNP (exclusive of hospital cost settlements) was $520 million. The estimate included a 25% margin for adverse deviation, $104 million, due to the uncertainties associated with MECMS. The liability estimate was not reduced to reflect any Interim Payments due back to the State.

A federal audit questioned the ability of MECMS to correctly process claims. The federal auditors recommended that DHHS reprocess all Medicaid claims since conversion; the State responded that the recommendation was not practical and instead planned to rely on quality testing. The Centers for Medicare and Medicaid Services (CMS) has not issued a decision on the recommendation.

The ability of State agency personnel to complete their work has been adversely affected. Staff has been diverted to assist with stabilization efforts. Agency personnel have had no option but to use the new system, even while it continues to be developed.

DHHS has decided to transition claims management to a fiscal agent due to the persistent and unresolved System problems. That arrangement is expected to take three years to become operational. The State has reached agreement with the original contractor to continue to operate and to correct problems while the fiscal agent solution is put into place. Much of the MECMS development and design was not documented such that another contractor or the State could operate the System without continuing contractor involvement.

**Recommendation:** We recommend that the Office of MaineCare Services:

- Develop a detailed plan for transition to the new fiscal agent model being considered
- Develop a fallback capability during the transition
- Continue stabilization efforts so that MECMS provides for uninterrupted service
- Limit use of open-ended contracts; ensure that all contracts contain specific deliverables and provide for adequate DHHS oversight to ensure acceptable completion
- Implement the full complement of processing system cycle edits
- Generate a claims processing technical design plan
- Fully rectify or close all processing system change control forms (identifying system errors and inadequacies) currently in "open" status
- Investigate the status of each provider's unprocessed and suspended claims and determine their respective overpayment amounts, if any
- Continue the formal recovery effort, which commenced in December of 2005, to recoup overpayments paid out in interim payments
- Develop the means to generate a report of duplicate payments made to providers and recoup any overpaid amounts
- Develop the means to generate the system reports critical to data control, provider cost settlements, and day-to-day management functions including the monitoring of program activity
- Fully resolve with the federal government their recommendation to reprocess MECMS claims
- Upon completion of a replacement processing system, migrate the rules engine and core subsystems to the new platform operated by the fiscal agent

**Management Response/Corrective Action Plan:** *DHHS agrees that the existing Medicaid Claims Management Information System (MECMS), implemented January 25, 2005 continues to operate deficiently and without necessary functionality for Third Party Liability recoveries and Program Integrity. The following actions have been taken to remedy the situation:*

- *In 2006, MaineCare Services was reorganized and directors were hired for key division areas: Customer Service, Claims, Communications, and TPL. Additionally, in January 2007, management analyst positions and Quality Assurance staff were added in the Claims Division, to transition analytical and QA work previously supported by a consulting firm. At this time, only one project management role is held by a consultant.*
- *With the cooperation of CMS, DHHS entered into an 18-month agreement with CNSI to implement nine system development initiatives to remedy major deficiencies in the current MECMS program. These initiatives include:*
    - *Interim Payment Recovery (IPR) Claims Hold – to assist in recovery of Interim Payments, implemented March 2007*
    - *J-Code Functionality – to allow OMS to comply with drug rebate requirements, implemented June 2007*
    - *Voids Functionality – to allow providers and OMS to void claims, to be implemented October 2007*
    - *Edits Processing Failure Initiative – to prevent claims from failing to process, resulting in "stuck" claims, to be implemented January 2008*
    - *Modifiers Initiative – to allow providers to bill HCPCS codes with appropriate pricing and descriptive modifiers, to be implemented January 2008*
    - *Co-pay and Cost of Care Initiatives – to process claims with correct consideration of co-pays and cost of care, to be implemented January 2008*
    - *Adjustments Functionality – to allow providers and OMS to adjust incorrectly paid claims, to be implemented March 2008.*
    - *Limits Initiative – to apply limits appropriately in the adjudication of claims, to be implemented in June 2008*

- *In addition to the development initiatives, CNSI is to support operation of MECMS and correcting ongoing issues through a structured Patch process. Approximately three patches are implemented monthly to correct smaller data or processing issues.*
- *During contract negotiations with CNSI in February 2007, OIT sent several staff members to CNSI Headquarters in Maryland, to fully train sufficient resources to take over system operations if needed. DHHS is confident that State staff could take over operations of MECMS if necessary. OIT continues to work with CNSI closely to automate systems operations maintenance functions to minimize dependence on human intervention.*

*Even with these development issues, it is highly unlikely that the existing MMIS system will ever support the missing functionality or be certified by CMS. Consequently, in January 2007, DHHS announced the decision to pursue a Fiscal Agent solution. Since that time, the Department has submitted the required documents with CMS to begin this process.*

*In July 2007, CMS provided the State with written approval of the accelerated procurement plan outlined in the PAPD. Under this approach, DHHS will perform a fit analysis, evaluate and select a vendor based on technical requirements in lieu of a full RFP process. This accelerated*

*approach will allow the State to save five months in the procurement process, selecting a vendor by January 2008 and implementing a new MMIS system by January 2010.*

***Contact:*** *Robin Chacon, DHHS, OMS - Claims Director, 287-2769*

***OIT Management's Response:***

*OIT agrees with the findings that the MECMS system is incomplete and not fully operating as intended. OIT concurs with the Department of Health and Human Services responses provided under their response to the findings.*

*In addition, OIT has reviewed the recommendations suggested related to IT functions. Specifically -*

- ***Generate a claims processing technical design plan.***
  *There are actually several technical design plans (TDPs) that, when pulled together, describe the design of the claims processing within MECMS. Missing is the higher level document that ties the different plans together. Because of the move to the fiscal agent, the State does not intend to add this higher level design document, unless time and priorities permit. Rather, energy will be focused on ensuring the new solution has the appropriate documentation.*
- ***Fully rectify or close all processing system change control forms (identifying system errors and inadequacies) currently in "open" status***
  *There are a large number of system change control forms (CCFs) currently in open status for MECMS. Part of the decision to move to a fiscal agent and thereby a new technical solution recognizes this fact, and the decision will be to only address (correct and close out) those that are of the highest importance to MECMS processing, DHHS business, and provider activities. As a result, the majority will be left in open state when we move to the fiscal agent. This approach was also solidified in the current contract with the MECMS vendor, CNSI.*
- ***Upon completion of a replacement processing system, migrate the rules engine and core subsystems to the new platform operated by the fiscal agent.***
  *This recommendation is counter to the approach now under way for the implementation of an MMIS with a new Fiscal Agent. The rules engine and core sub systems will not be used going forward. The specific rules implementation and subsystem outcomes will be requirements of the new fiscal agent, but they will not be required to operate the existing system.*

***Contact:*** *Richard Thompson, DAFS, OIT, Chief Information Officer, 624-7568*

**(06-82)**

**Finding Title:** Inadequate security controls in Oracle Financials
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778
**CFDA Title:** Medicaid Cluster
**Federal Award**: 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of MaineCare Services (OMS)

**Finding Type:** Internal control

**Compliance Area:** Special tests and provisions

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Mechanized claims processing and information retrieval systems (42 CFR §433.110)

**Conditions:** We noted the following weaknesses in computer systems security practices:

- User access to Oracle Financials is not reviewed periodically. Users IDs for personnel who do not use the system are not revoked or deleted within a reasonable period.
- A workflow module, which would require electronic supervisory approval of transactions within Oracle Financials, had not been implemented. This allows State agency personnel to enter payments directly into the system, which subsequently are paid by the State's primary accounting system, without further review or authorization.
- Key programming staff at Client Network Services, Inc. (CNSI), the developer of the Maine Claims Management System (MECMS), has "super-user" access to Oracle Financials. Common controls in a data processing environment do not allow programming staff to have access to production systems.

**Context:** Oracle Financials is an intermediate accounting system used between MECMS and the State's primary accounting system, Maine Financial and Administrative Statewide Information System (MFASIS). One purpose of Oracle Financials is to combine MECMS claims into invoices and to record receivables that result from interim payments to provider; it is also used to make other non-claim payments.

**Cause:**

- A number of new user IDs were established when the Oracles Financials system was implemented with the expectation that certain personnel would continue to require access to the system. These user IDs remain active for periods as long as a year or more despite the fact that users do not use the system.
- Non-implementation of standard systems security practices

**Effect**: Personnel who may not have a legitimate business need may access the system and pass unsupported or unauthorized payments to the primary accounting system.

**Recommendation:** We recommend that the Department improve systems security procedures by:

- Reviewing user access to Oracle Financials and deleting or revoking user IDs for personnel who do not need to use the system.
- Implementing the workflow module into Oracle Financials.
- Considering methods to isolate vendor/programmer access from the production system in a manner that will not cause undue delay or complexity in transaction processing.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

***Review user access to Oracle Financials and delete or revoke user IDS for personnel who do not need to use the system.***
*A quarterly review of user ID's will be implemented and unauthorized personnel will have their user ID's access to the various modules end dated. New user ID's access to various modules will need security level assignment and authorization.*

***Consider implementing the workflow module into Oracle Financials.***
*DHHS will be preparing an analysis of the impact of implementing the workflow module into Oracle Financial. DHHS projects the analysis to be complete during fiscal year 2009.*

***Consider methods to isolate vendor/programmer access from the production system in a manner that will not cause undue delay or complexity in transaction processing.***
*The MECMS and Oracle Financial systems are still in stages of development. Isolation of Vendor/Programmer access will be addressed when the systems become more stable.*

*Additionally, as the Department transitions to a fiscal agent to manage Medicaid claims, vendor access will be isolated.*

***Contact:*** *Brian Guerrette, DHHS/OIT/DAFS, Systems Section Manager, 287-1748*

**(06-83)**

**Finding Title:** Noncompliance with Automatic Data Processing (ADP) review requirements
**Prior Year Finding:** 05-60
**CFDA:** 93.775, 93.777, 93.778
**CFDA Title:** Medicaid Cluster
**Federal Award:** 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
Administrative and Financial Services (DAFS)
**Bureau:** Office of Information Technology (OIT)

**Finding Type:** Internal control and compliance

**Compliance Area:** Special tests and provisions

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:**

- 45 CFR §95.621; 45 CFR §95.601
- 45 CFR §95.621 requires the state agency to "establish and maintain a program for conducting periodic risk analyses…whenever significant system changes occur" and to "maintain reports of their biennial ADP *(Automatic Data Processing)* system security reviews, together with pertinent supporting documentation, for HHS on-site review." Furthermore, the requirements apply to programs covered under 45 CFR part 95, subpart F, which includes Title I, IV-A, IV-B, IV-D, IV-E, X, XIV, XVI(AABD), XIX, or XXI of the Social Security Act and Title IV Chapter 2 of the Immigration and Nationality Act.

**Condition:** DHHS does not conduct formal security reviews of ADP systems on a biennial basis as required; and has not conducted and documented periodic risk analyses. While DHHS, supported by services provided by OIT, may have implemented many elements of a security plan as required including: (A) Physical security; (B) Equipment security; (C) Software and data security; (D) Telecommunications security; (E) Personnel security; (F) Contingency plans; (G) Emergency preparedness; and (H) Designation of an Agency ADP Security Manager; it has not formally implemented security review and risk analysis procedures and adequately documented the results.

**Context:** DHHS is responsible for the security of all ADP projects under development, and operational systems involved in the administration of DHHS programs within the scope of 45 CFR part 95 subpart F. as follows:

| Social Security Act | |
|---|---|
| **Title:** | |
| I | Grants to States for Old-Age Assistance for the Aged |
| IV-A | Block Grants to States for Temporary Assistance for Needy Families |
| IV-B | Child and Family Services |
| IV-D | Child Support and Establishment of Paternity |
| IV-E | Federal Payments for Foster Care and Adoption Assistance |
| X | Grants to States for Aid to the Blind |
| XIV | Grants to States for Aid to the Permanently and Totally Disabled |
| XVI(AABD) | Grants to States for Aid to the Aged, Blind or Disabled |
| XIX | Grants to States for Medical Assistance Programs |
| XXI | State Children's Health Insurance Program |
| **Immigration and Nationality Act** | |
| **Title:** | |
| IV Chapter 2 | Refugee Assistance |

Systems subject to the requirements may include, but are not limited to: Automated Client Eligibility System (ACES), Maine Claims Management System (MECMS), the State's primary accounting system (MFASIS), Welfare Information System (WELFRE), Oracle Financials, New England Child Support Enforcement System (NECSES), Maine Automated Child Welfare Information System (MACWIS), Enterprise Information System (EIS), Managed Care System (MECAPS), Long Term Assessment Tool (MECARE), Immunization Registry (ImPACT), IBM and Bull mainframe systems, database servers, as well as the network infrastructure that supports those systems.

**Cause:**
- Lack of personnel and resources
- Insufficient understanding or awareness of program requirements

**Effect:**
- Potential for inadequate safeguards to protect integrity and confidentiality of data
- Potential for unauthorized entry into operations, data storage, library and other support areas
- Potential for equipment loss or damage due to theft, sabotage, natural disaster or other threats
- Noncompliance with federally promulgated system review requirements
- Possible suspension or denial of federal financial participation for information systems or other penalties

**Recommendation:** To ensure that the level of security over DHHS' systems is adequate and to comply with regulations, we recommend that the Department:

- Conduct the required biennial ADP system security reviews and maintain reports of results.
- Establish a comprehensive risk analysis program.
- Assess the adequacy of the protective measures and controls that are needed to meet the pertinent federal ADP security requirements and standards.
- Continue to review the adequacy of those safeguards/controls on a biennial basis.
- Make a determination of compliance with the ADP security requirements.
- Write the policy and procedures of the ADP security program.

**Management Response/Corrective Action Plan:** *The audit finding suggests that a formal security review of Automated Data Processing systems does not occur on a regular/biennial basis, and that elements of a plan have been implemented in a scattered, non-formalized or organized, fashion. We partially agree with this finding.*

*In fact, we do have areas where formal and organized reviews are performed on a regular basis. For example, we do an IRS safeguard review for NECSES and ACES every two years. This is a comprehensive undertaking, and takes into consideration OIT's Application Hosting, High Speed Printing and Data Center services. These are the same services that many of the other DHHS systems fall subject to, including MACWIS, MAPSIS, EIS, MFASIS, and WELFRE.*

*We also have a security policy that has been aligned with HIPAA requirements. A contractor was brought on board to review and adjust our policy as necessary.*

*That said, more systems need to have the same level of detailed review, and a comprehensive DHHS centric report should be compiled. In fiscal year 2008, OIT will develop a DHHS-wide report on application systems. The report will include the following components for applications:*

*A. Physical security*
*B. Equipment security*
*C. Software and data security, including periodic penetration testing*
*D. Telecommunications security*
*E. Personnel security; Contingency plans*
*F. Emergency preparedness*
*G. Designation of an Agency ADP Security Manager(s)*

*In order to balance workload, it is envisioned that reviews will happen for half the applications in one fiscal year, the other half in the second. We will look at the feasibility of this report taking into account the DHHS IT Security policy, the IRS Safeguard Review, and SSA Review as well. The approach and plan will be developed by January 31, 2008. The schedule for implementing this plan will be included in this deliverable.*

***Contact:*** *Jim Lopatosky, DHHS - Information Technology Director, 287-2778*

**(06-84)**

**Finding Title:** Individual Care Plan authorized services incomplete
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778
**CFDA Title:** Medicaid Cluster
**Federal Award:** 05-0505ME5028, 05-0605ME5028
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Adults with Cognitive & Physical Disability Services

**Finding Type:** Internal control and compliance

**Compliance Area:** Special tests

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:**
- 42 CFR §440.180; §441.301
- Maine's Waiver Agreement Appendix E-2 (b)(1)
- U.S Department of Health and Human Services, Understanding Medicaid Home and Community Services: A Primer
- MaineCare Benefits Manual §21.05-1, §21.07, §21.07-1, §21.07-2

**Condition:** Individual Care Plans (ICP) did not consistently document authorized services; authorized units did not always represent reasonable estimates of services considered necessary. Many Plans indicated full-time residential placements, but did not specify the amounts/units of service authorized or the frequency of service. Only a few checklists indicated 365 days of service and only a few units could be tied back to authorization in the treatment plans.
- 28 of 60 (47%) Individual Care Plan narratives did not identify the amount and/or frequency of units of service authorized
- 24 of 60 (40%) Individual Care Plans amounts or frequencies of service did not agree to the amounts reflected on Individual Checklists, which serve as the means of authorizing payment in the Claims payment system

**Context:** Federal regulations require that all Waiver services be furnished pursuant to a written service plan that is developed for each waiver participant.

**Cause:** DHHS considers the checklist a part of the Individual Care Plan and that it is not necessary to also include units in the narrative and then abstract them to the checklist. As DHHS allocates the provider's costs to whatever units of service are indicated, the units really serve more as a billing mechanism rather than a true measure of service delivered.

**Effect**: Individual Care Plans do not consistently document the amount and frequency of service. Checklist units and rates, which appear to represent the apparent costs to treat individual clients, are in large part a mechanism for the Program to cover total provider costs; the units and rates are not a reliable means to compare or contrast the costs of providing services to specific clients, especially as they are changed as needed to adjust client specific provider payments to cover provider costs.

**Recommendation:** We recommend that the Department:

- Provide guidance to its staff regarding consistent preparation of Individual Care Plans.
- Establish meaningful units of service to be provided.
- Ensure that the ICP narrative and checklists unit agree .

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with the recommendations of this finding, and believes it is in compliance.*

*Each waiver participant has a personal plan developed annually. The Department does provide guidance and training to staff regarding consistent preparation of Person Centered Planning. The Department is willing to provide copies of the training materials on personal planning.*

*The disagreement in the finding is around the development of the checklist which is used to establish the units of authorized services.*

*The checklist is a distinct separate component of individual plans; its primary purpose is to identify the authorized units and cost per unit of each waiver service. Most often this is developed after the planning meeting has occurred based on the identification of the support needs of the individual. Hence, the checklist is a summary of the services defined in the original planning meeting. The Department is improving the checklist by adding improved descriptions of each service to ensure that staff is appropriately documenting necessary services.*

*The Department has a review process for a sample number of person centered plans in order to verify that the narrative is inclusive of all services needed by the individual.*

*This fall the Department will be moving to a standardized and published rate system which will remove any appearance that rates having been arbitrarily set.*

***Contact:*** *Jane Gallivan, DHHS - Program Systems Director, 287-4212*

***Auditor's Conclusion:*** Our examination results indicated noncompliance.

The finding remains as stated.

**(06-85)**

**Finding Title:** Inadequate surveillance and utilization review of Medicaid prescription drugs and supplies
**Prior Year Finding:** No
**CFDA:** 93.775, 93.777, 93.778, 93.767
**CFDA Title:** Medicaid Cluster
State Children's Insurance Program (SCHIP)
**Federal Award:** 05-0505ME5028, 05-0605ME5028; 05-0405ME5021; 05-0505ME5021
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Office of MaineCare Services

**Finding Type:** Internal Control and compliance

**Compliance Area:** Special tests and provisions

**Known Questioned Cost:** $11
This is the federal portion of one detected overpayment in a sample of 40 Medicaid prescription payments. A pharmacy dispensed a prescription for double the amount prescribed by the physician.

**Likely Questioned Cost:** $329,009
The likely questioned cost amount was computed by applying the error rate of .22% to the population of federal Medicaid expenditures for prescription drugs ($156,963,014).

**Criteria:** 42 CFR §456.1(b)(8)
42 CFR §456.709
42 CFR §456.716
MaineCare Benefits Manual, Chapter II §80.04

**Condition:** DHHS does not have an adequate drug use review program as required by 42 CFR §456.1(b)(8). The drug use review program does not include the standardized retrospective examination of claims data required by 42 CFR §456.709. Section 709 requires that actions be taken to identify patterns of fraud, abuse, gross overuse, or inappropriate or medically unnecessary care by pharmacists; and DHHS does not provide the Drug Utilization Review Board with ongoing periodic claims data to identify these patterns. Because of the absence of other testing, we extended our examination by sampling 40 Medicaid prescription transactions; we detected 13 pharmacy dispensing exceptions as follows:

- Four instances when the prescription was not dated and no follow-up with the physician was documented (including one instance involving a controlled substance)
- One instance when the pharmacy dispensed and charged double the prescribed amount resulting in a federal questioned cost
- One instance when the pharmacy could not locate the prescription

- One instance when the prescription was not signed by the physician and no follow-up with the physician was documented
- One instance when it was the national pharmacy's policy not to obtain a signature acknowledgement that the prescription was picked-up
- One instance when an out-of-state pharmacy claimed they could not provide a copy of the signature acknowledgement that the prescription was picked up due to a limitation imposed by their electronic system
- Four other instances relating to unclear quantities, a missing drug description, an unclear dosage; combined with no documented follow-up with the physician

**Context:** The Medicaid and SCHIP programs expended approximately $250 million for prescription drugs in fiscal year 2006. The MaineCare Benefits Manual, Chapter II §80.04, states that the goal of the Drug Utilization Review Committee is to assure that prescriptions are appropriate, medically necessary, and not likely to result in adverse results.

**Cause:** Management's attention was directed to other areas; after the year of audit the pharmacy unit hired an analyst.

**Effect**:
- Pattern analysis using predetermined standards cannot be conducted as required by 42 CFR §709
- Fraud, abuse, gross overuse, or inappropriate or medically unnecessary care may not be detected on a timely basis

**Recommendation:** We recommend that the Department have an adequate drug use review program, and provide the Drug Utilization Review Board with ongoing periodic drug claims data as required by federal and State law.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*The Department of Health and Human Services will provide the Drug Utilization Review Board with a standardized quarterly report ("Claims Trending Report") tracking defined pharmacy claim trends along with any recommendations for remedial action.*

*The Program Integrity Unit will dedicate a position to focus on pharmacy reviews; it is anticipated that the position will be filled in December 2007. The position will be reviewing and addressing the conditions listed above. A quarterly report of the site findings will be submitted to the Manager of the Pharmacy Unit. The Manager will report the Dispensing Practices of Pharmacies to the Drug Utilization Review Board along with the Quarterly Claims Trending Report noted above.*

*An assembled set of report criteria will be presented to the DUR at their December 2007 meeting. The first report will be due at the February 2008 quarterly meeting.*

# MEDICAID CLUSTER

***Contact:*** *Carol Bean, DHHS - Comprehensive Health Planner II, 287-3941*

**Please see the following findings for other issues relating to this program.**


**(06-07)** ***page E-38***

**(06-08)** ***page E-40***

**(06-10)** ***page E-43***

**(06-37)** ***page E-89***

**(06-43)** ***page E-98***

**(06-99)** ***page E-208***

**(06-100)** ***page E-210***

**(06-101)** ***page E-211***

# NATIONAL BIOTERRORISM HOSPITAL PREPAREDNESS PROGRAM

**(06-86)**

**Finding Title:** Internal controls not adequate to ensure compliance with cost principles related to personal services costs
**Prior Year Finding:** No
**CFDA:** 93.889
**CFDA Title:** National Bioterrorism Hospital Preparedness Program
**Federal Award:** 3RHS05961, 3RMC0393501, U3RMC0003402
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Maine Center for Disease Control and Prevention

**Finding Type:** Internal control and compliance

**Compliance Area:** Allowable costs/Cost principles

**Known Questioned Cost:** Undeterminable

**Likely Questioned Cost:** Undeterminable

**Criteria:** Cost Principles for State, Local and Indian Tribal Governments, Selected Items of Cost, Compensation for Personal Services, Support of Salaries and Wages (OMB Circular A-87, Attachment B. 8, Paragraph h)

**Condition:** The Department charged personnel services costs to the National Bioterrorism Hospital Preparedness (NBHP) grant. The charges are not supported by time distributions prepared in accordance with federal cost guidance. We noted the following:

- Quarterly reconciliations of budgeted time to actual time were not prepared for employees who work on the NBHP program and other programs.
- Certifications were not completed for employees who work solely on the NBHP program.

**Context:** This is a systemic problem.

**Cause:** Inadequate internal controls over personal services costs

**Effect:** Possible disallowance of unsupported costs

**Recommendation:** We recommend that the Department:

- Provide a reconciliation of budgeted time to actual time for employees who work on the NBHP program and other programs. Grant accounting records should be adjusted to reflect costs for actual time spent on the program activities.
- Provide semi-annual certification of employees who work solely on the NBHP program.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*The Office of Center for Disease Control and Prevention will develop and disseminate a policy by September 15, 2007 to ensure compliance.*

***Contact:*** *Chris Zukas-Lessard, DHHS, CDC - Deputy Director, 287-5179*

**(06-87)**

**Finding Title:** Internal control procedures not adequate to ensure compliance with cash management requirements
**Prior Year Finding:** No
**CFDA:** 93.889
**CFDA Title:** National Bioterrorism Hospital Preparedness Program
**Federal Award:** U3RHS00034, U3RHS03935, U3RHS05961
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Health and Human Services Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Cash management

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Rules and Procedures for Efficient Federal State Funds Transfers – Rules Applicable to Federal Assistance Programs Not Included in a Treasury State Agreement (31 CFR §205 Subpart B)

**Condition:** Internal control procedures were not adequate to ensure compliance with cash management requirements. As a result average cash on hand exceeded immediate needs for four of twelve months tested during fiscal year 2006.

**Context:** This is a systemic problem.

**Cause:** Control procedures have not been fully implemented to ensure timely cash draws.

**Effect:** Noncompliance with federal cash management requirements

**Recommendation:** We recommend that the Department take appropriate action to ensure that cash is managed according to the provisions of the Cash Management Improvement Act.

**Management Response/Corrective Action Plan:** *The Department of Administrative and Financial Services DHHS Service Center agrees with this finding.*

*As of July 2007, DHHS Service Center has assigned a financial analyst to oversee all cash management for the Department. This person has met with the Treasurer's Office CMIA administrator and has started to implement procedures to limit draws to comply with federal cash management rules.*

***Contact:*** *Charles Woodman, DAFS, DHHS Service Center - Deputy Director, 287-2572*

**(06-88)**

**Finding Title:** Internal controls not adequate to ensure compliance with period of availability requirements
**Prior Year Finding:** No
**CFDA:** 93.889
**CFDA Title:** National Bioterrorism Hospital Preparedness Program
**Federal Award:** U3RHS00034
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Health and Human Services Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Period of availability of federal funds

**Known Questioned Cost:** $1,901,456

**Likely Questioned Cost:** $1,901,456

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local and Tribal Governments – Period of Availability of Funds (45 CFR §92.23)

**Condition:** Internal controls were not adequate to ensure that grant funds were expended within the period of availability. The Grant Notice specified that the available time frame for this grant as 12 months. Spending continued after that period without an authorized extension.

**Context:** This is a systemic problem.

**Cause:** Control procedures have not been implemented to ensure grant expenditures are not made beyond the period of availability.

**Effect:** Current questioned costs of $1,901,456 and potential future questioned costs.

**Recommendation:** We recommend that the Department implement control procedures to ensure that grant expenditures are made within the period of availability.

**Management Response/Corrective Action Plan:** *The Department of Administrative and Financial Services, DHHS Service Center agrees written permission was not available to support the reporting of expenditures that occurred in subsequent grant years. Although in a prior year, the Federal Grant Officer had confirmed that Maine CDC could revise the financial status report to add these expenditures therefore, we disagree with the questioned costs in the finding.*

***Contact:*** *Matthew Halloran, DAFS, DHHS Service Center - Managing Staff Accountant, 287-5498*

***Auditor's Conclusion:*** Our communications with the U.S. Department of Health and Human Services revealed that the State did not have authority to spend these grant funds beyond the period of availability, resulting in the stated questioned costs. The finding remains as stated.

**(06-89)**

**Finding Title:** Controls not adequate to ensure accurate financial reporting
**Prior Year Finding:** No
**CFDA:** 93.889
**CFDA Title:** National Bioterrorism Hospital Preparedness Program
**Federal Award:** U3RHS00034, U3RHS03935
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** Health and Human Services Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Reporting

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements with State, Local and Tribal Governments – Financial Reporting (45 CFR §92.41)

**Condition:** Internal control procedures were not adequate to ensure compliance with financial reporting requirements. We noted the following:

- Only a revised version of the 8/31/04 financial status report for the 2004 grant was available for our review; the original was lost or not filed
- The financial status report for the 2004 grant (3/29/07 revision) included expenditures from fiscal year 2005 and fiscal year 2006 that occurred after the August 31, 2004 reporting period

**Context:** This is a systemic problem. Procedures were not in place to file proper reports.

**Cause:** Lack of written procedures and lack of oversight.

**Effect:** Potential restrictions to current funding and loss of future funding.

**Recommendation:** We recommend that the Department implement procedures to ensure financial reporting.

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services and the Department of Administrative and Financial Services agrees with this finding.*

*The Service Center has improved its record retention practice significantly since fiscal year 2004. A Microsoft Outlook Calendar was created to list due dates of grants.*

*The financial status report for the 2004 grant was revised based upon communications from the Maine Center of Disease Control and Prevention personnel who indicated they had received verbal permission to expend beyond the grant ending period. Subsequent correspondence from CDC denied that permission was granted. The 2004 FSR will be revised by September 30, 2007.*

*Contact: Matthew Halloran, Managing Staff Accountant, 287-5498*

**(06-90)**

**Finding Title:** Inadequate controls with subrecipient monitoring requirements
**Prior Year Finding:** No
**CFDA:** 93.889
**CFDA Title:** National Bioterrorism Hospital Preparedness Program (NBHP)
**Federal Award:** 3RHS05961, 3RMC0393501, U3RMC0003402
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Health and Human Services (DHHS)
**Bureau:** Maine Center for Disease Control and Prevention

**Finding Type:** Internal controls and compliance

# NATIONAL BIOTERRORISM HOSPITAL PREPAREDNESS PROGRAM

**Compliance Area:** Subrecipient monitoring

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments (45 CFR §92.37, §92.40)

**Condition:** Internal control procedures were not adequate to ensure compliance with subrecipient monitoring requirements. We found the following:

- Subrecipient contracts included both the outdated and current CFDA number
- Two of the three subrecipients' financial reports could not be located by the State agency
- Agency personnel did not verify the existence of equipment purchased by the subrecipients nor did they obtain a detailed listing (showing serial number or other identifier) of the equipment during site visits

**Context:** This is a systemic problem.

**Cause:** Lack of procedures.

**Effect:** Subrecipients may not comply with applicable federal requirements.

**Recommendation:** We recommend that the Department implement control procedures to ensure the following:

- Correct grant information is provided to subrecipients
- Quarterly subrecipient financial reports are received and retained
- Subrecipients provide a detailed listing of equipment that was purchased with the NBHP program funds
- Site visits include a review of equipment

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

***Corrective action to be implemented Maine CDC, Division of Public Health Systems, and Office of Public Health Emergency Preparedness:***

***Recommendation:*** *Correct grant information is provided to subrecipients. Subrecipient contracts included both the outdated and current CFDA number.*

> ***Corrective Action:*** *OPHEP will in coordination with U.S. Department of Health and Human Services, Hospital Preparedness Program leadership and Maine Department of Health and Human Services, Division of Purchases / Contract Management staff develop and implement a process to assure that current CFDA numbers are those provided on all contracts with*

*subrecipients. As part of the Division Director's official review of all new and amended contracts, a notation will be made regarding the validity of the CFDA number.*

***Recommendation:*** *Quarterly subrecipient financial reports are received and retained*

***Corrective Action:*** *Quarterly reports are currently received from all subrecipients to include descriptions of progress made to meet deliverables and financial tracking for each deliverable. OPHEP will develop and implement a reporting process for all subrecipients that will require quarterly, a separate financial report. The Director of OPHEP will maintain a file verifying that all quarterly subrecipient financial reports have been received.*

***Recommendation:*** *Subrecipients provide a detailed listing of equipment that was purchased with the NBHP program funds*

***Recommendation:*** *Site visits include a review of equipment.*

***Corrective Action:*** *OPHEP maintains a complete database of all equipment by location purchased with Hospital Preparedness Program funding. Itemized listings of specific equipment types by Regional Resource Center region were provided to audit personnel at their request.*

*OPHEP will implement an equipment inventory management system for Regional Resource Center and all other subrecipients that will include serial numbers or other identifiers. Equipment inventory reports will be provided to Maine CDC annually as a component of end of the year progress reports.*

*Maine CDC Public Health Emergency Preparedness management staff including the Director, Division of Public Health Systems and OPHEP Director, meet monthly with leadership of each Regional Resource Center. Site visits have included review of equipment. Ongoing site visits will be documented to include review of equipment. The Director of OPHEP will retain responsibility for management of the grant equipment inventory.*

*The Department of Health and Human Services, Office of Public Health Emergency Preparedness will be implementing the plan during fiscal year 2008.*

***Contact:*** *Chris Zukas-Lessard, DHHS - CDC, Deputy Director, 287-5178*

**Please see the following findings for other issues relating to this program.**

**(06-17)** ***page E-53***

**(06-99)** ***page E-208***

**(06-101)** ***page E-211***

**(06-91)**

**Finding Title:** Payroll certifications not obtained
**Prior Year Finding:** 05-37
**CFDA:** 97.004, 97.067
**CFDA Title:** Homeland Security Cluster
**Federal Award:** 2004-GE-T4-0041, 2005-GE-T5-0053
**Federal Agency:** U.S. Department of Homeland Security
**State Department:** Defense, Veterans and Emergency Management (DVEM)
**Bureau:** Maine Emergency Management Agency

**Finding Type:** Internal control and compliance

**Compliance Area:** Allowable costs/Cost principles

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, Attachment B, §11.h (3))

**Condition:** The Department did not have adequate procedures in place to comply with federal cost principles regarding payroll certifications. They did not obtain the required semi-annual certifications for employees who worked solely on the Homeland Security Grant Program.

**Context:** This is a systemic problem.

**Cause:** There are no established procedures to ensure compliance with OMB Circular A-87 payroll certification requirements.

**Effect:** Unallowable payroll costs might be charged to the program.

**Recommendation:** We recommend that the Department implement procedures to ensure compliance with OMB Circular A-87 payroll certification requirements.

**Management Response/Corrective Action Plan:** *We agree.*

*MEMA will follow up with Payroll Services to determine any necessary changes to ensure payroll certifications are happening correctly. We are working on implementing changes to the agency in fiscal year 2008. Previously, we were able to provide an annual letter to certify payroll expenses.*

***Contacts:*** *Ginnie Ricker, Deputy Director, DVEM-MEMA, 624-4471*
*Ron Looman, Senior Contract Grant Specialist, DVEM-MEMA, 624-4450*

# HOMELAND SECURITY CLUSTER

**(06-92)**

**Finding Title:** Inadequate controls and noncompliance with federal cash management requirements
**Prior Year Finding:** No
**CFDA:** 97.004, 97.067
**CFDA Title:** Homeland Security Cluster
**Federal Award:** 2003-TE-TX-0158; 2003-MU-T3-0016, 2004-GE-T4-0041; 2005-GE-T5-0053
**Federal Agency:** U.S. Department of Homeland Security
**State Department:** Defense, Veterans and Emergency Management (DVEM)
**Bureau:** Maine Emergency Management Agency

**Finding Type:** Internal control and compliance

**Compliance Area:** Cash management

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement (31 CFR §205 Subpart B)

**Condition:** The Department did not have adequate procedures in place to ensure compliance with federal cash management requirements. The Department did not minimize the time between the drawdown of federal funds from the federal government and their disbursement for federal program purposes. Furthermore, the Department did not consistently maintain documentation supporting their federal cash draws.

**Context:** For the 12 months reviewed, average federal cash on hand ranged from 10 days to 89 days. Additionally, of the 21 individual draws tested, 10 did not have the supporting documentation necessary to determine compliance. Of those with documentation, seven draws did not comply with federal cash management requirements as excessive cash was drawn.

**Cause:**
- Lack of supporting documentation
- Staff turnover
- Cash was drawn without considering federal cash management requirements

**Effect:** Excessive federal cash on hand.

**Recommendation:** We recommend that the Department implement procedures to ensure that federal cash is not drawn more than seven business days in advance of actual program expenditures. We further recommend that supporting documentation is maintained for each federal cash draw.

**Management Response/Corrective Action Plan:** *We agree.*

*The process to request draw-downs has become complicated; it takes multiple people in order to get the process completed. When individuals are out, a request can become overdue quickly. MEMA has been on estimated revenue since October 2006 and we no longer need to request funds upfront.*

*It is the Department's policy to retain all documentation to support federal drawdown requests to ensure proper tracking and validation are completed. It is the intent of the agency to ensure compliance with State and federal cash management requirements. All copies are on hand, as well as additional supporting documentation with regard to all drawdown requests.*

***Contacts:*** *Ginnie Ricker, Deputy Director, DVEM-MEMA, 624-4471*
*Ron Looman, Senior Contract Grant Specialist, DVEM-MEMA, 624-4450*

**(06-93)**

**Finding Title:** Inadequate controls to ensure compliance with earmarking requirements
**Prior Year Finding:** No
**CFDA:** 97.004
**CFDA Title:** Homeland Security Cluster
**Federal Award:** 2003-TE-TX-0158, 2003-MU-T3-0016
**Federal Agency:** U.S. Department of Homeland Security
**State Department:** Defense, Veterans and Emergency Management (DVEM)
**Bureau:** Maine Emergency Management Agency

**Finding Type:** Internal control and compliance

**Compliance Area:** Matching, Level of effort, Earmarking; Allowable costs/Cost principles

**Known Questioned Cost:** $671,000

**Likely Questioned Cost:** Undeterminable

**Criteria:** Grant Program For State And Local Domestic Preparedness Support (42 USC §3714 (b) & (c) (2))

**Condition:** The Department did not have adequate procedures in place to ensure compliance with earmarking requirements. The earmarking control spreadsheets utilized by the Department for the 2003 State Homeland Security Grant Program (SHSGP) indicated the following:

- Earmarking requirements for funds passed-through to municipalities were not met (we question these costs)
- Earmarking limits for administrative costs and equipment costs were exceeded (we do not question these costs since it is possible this is only a documentation issue)
- Earmarked funds were spent for unallowable purposes (we question these costs)

- Total earmarked expenditures accumulated on the Department's control spreadsheets exceeded the total grant award, indicating a significant problem with their control procedures

Additionally, for the 2003 SHSGP – Part II we found that the same expenditures were used on the Department's control spreadsheets to meet more than one earmarking requirement. However, total earmarked expenditures accumulated on these spreadsheets exceeded the total grant award. As such, we do not question these costs since it is possible this is only a documentation issue.

**Context:** This is a systemic problem.

**Cause:** Inadequate review of earmarking control spreadsheets

**Effect:** Current and potential future questioned costs.

**Recommendation:** We recommend that the Department establish procedures to ensure that only allowable expenditures are applied to the grant and that those expenditures are monitored for compliance with earmarking requirements.

**Management Response/Corrective Action Plan:** *We agree.*

*The finding reflects management of one of the Agency's oldest grant programs. Personnel and practices in the Agency have changed drastically since the beginning of both the 2003 SHSGP Parts I and II, as a result we believe we have improved and strengthened our management and administration of the grant programs.*

*With specific regard to the findings:*

- *We agree with the Audit findings that certain expenses should not have been charged to the "equipment" portion of the fiscal year 2003 SHSGP Pt I grant. Our finance process has been modified to improve protections against this happening in future grants.*
- *We agree with the Audit findings that documentation errors likely exist. Again, tracking of this grant passed through several hands and personnel members who have left the Agency. Controls have been improved with current staff in place.*
- *As in the above responses, we believe that expense recording errors led to the Audit findings that unallowable expenses may have been incurred. Practices have been improved to ensure funds are spent appropriately in current and future grants.*
- *We believe that grant funds were drawn down from federal accounts in their entirety. That our spreadsheets reflect overspending is likely an internal tracking issue related to the many personnel and changing financial practices in the state system.*

*We continue to work on ensuring that expenditures are earmarked appropriately and monitor our internal tracking system to ensure correct reporting.*

***Contacts:*** *Ginnie Ricker, Deputy Director, DVEM-MEMA, 624-4471*
*Bruce Fitzgerald, Homeland Security Division Director, 624-4474*

**(06-94)**

**Finding Title:** Program funds expended beyond period of availability
**Prior Year Finding:** No
**CFDA:** 97.004
**CFDA Title:** Homeland Security Cluster
**Federal Award:** 2003-TE-TX-0158, 2003-MU-T3-0016
**Federal Agency:** U.S. Department of Homeland Security
**State Department:** Defense, Veterans and Emergency Management (DVEM)
**Bureau:** Maine Emergency Management Agency

**Finding Type:** Internal control and compliance

**Compliance Area:** Period of availability

**Known Questioned Cost:** $121,303

**Likely Questioned Cost:** $121,303

**Criteria:** Uniform Administrative Requirements for Grant and Cooperative Agreements for State and Local Governments – Period of Availability of Funds (28 CFR §66.23)

**Condition:** The Department did not have adequate controls to ensure that expenditures were properly liquidated within the period of availability.

**Context:** This is a systemic problem. Two invoices totaling $121,303 were paid beyond the period of availability.

**Cause:** Inadequate monitoring to ensure that program funds are spent within the allowable time frame.

**Effect:** Current and potential future questioned costs.

**Recommendation:** We recommend that the Department establish procedures to monitor period of availability to ensure compliance with federal regulations.

**Management Response/Corrective Action Plan:** *We agree.*

*We believe this issue has since been corrected through a better understanding of the grant processes/cycles by our current staff. We believe this was an issue during the 90 day grace period provided by DHHS. This has been corrected effective fiscal year 2007.*

***Contacts:*** *Ginnie Ricker, Deputy Director, DVEM-MEMA, 624-4471*
*Bruce Fitzgerald, Homeland Security Division Director, 624-4474*

# HOMELAND SECURITY CLUSTER

**(06-95)**

**Finding Title:** Inaccurate SEFA reporting
**Prior Year Finding:** No
**CFDA:** 97.004, 97.067
**CFDA Title:** Homeland Security Cluster
**Federal Award:** 2003-TE-TX-0158; 2003-MU-T3-0016; 2004-GE-T4-0041; 2005-GE-T5-0053
**Federal Agency:** U.S. Department of Homeland Security
**State Department:** Defense, Veterans and Emergency Management (DVEM)
**Bureau:** Maine Emergency Management Agency

**Finding Type:** Internal control and compliance

**Compliance Area:** N/A

**Known Questioned Cost:** N/A

**Likely Questioned Cost:** N/A

**Criteria:** Audits of States, Local Governments, and Nonprofit Organizations – Schedule of Expenditures of Federal Awards (OMB Circular A-133 §310(b))

**Condition:** The Department did not have adequate controls in place to ensure that it correctly reported expenditures to the Office of the State Controller (OSC) for the Schedule of Expenditures of Federal Awards (SEFA) for this program.

**Context:** Expenditures totaling $3.3 million were reported under incorrect CFDA numbers.

**Cause:**
- Staff turnover
- The complexity of federal grants migrating into the Homeland Security Grant Program along with transitioning of CFDA numbers associated with the different grant awards

**Effect:** Incorrect SEFA.

**Recommendation:** We recommend that the Department develop procedures to ensure that federal expenditures are correctly reported on the SEFA.

**Management Response/Corrective Action Plan:** *The Department will work with the Office of the State Controller to research the issue further. Appropriate measures will be taken to ensure that grant expenditures are properly reported on the SEFA based upon the results of our research.*

*Contact: Karen Roderick, DVEM, Maine Military Authority (MMA) - Director of Finance, 430-2197*

# HOMELAND SECURITY CLUSTER

**(06-96)**

**Finding Title:** Incorrect financial reports
**Prior Year Finding:** No
**CFDA:** 97.004, 97.067
**CFDA Title:** Homeland Security Cluster
**Federal Award:** 2003-TE-TX-0158; 2003-MU-T3-0016; 2004-GE-T4-0041; 2005-GE-T5-0053
**Federal Agency:** U.S. Department of Homeland Security
**State Department:** Defense, Veterans and Emergency Management (DVEM)
**Bureau:** Maine Emergency Management Agency

**Finding Type:** Internal control and compliance

**Compliance Area:** Reporting

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Standards for Financial Management Systems (28 CFR §66.20)

**Condition:** The Department did not have adequate controls to ensure accurate financial reporting of Homeland Security Grant expenditures.

**Context:** Sixteen quarterly reports were filed for fiscal year 2006. Of those sixteen quarterly reports, errors were noted in eight. We found that estimates rather than actual expenditures were reported. These estimates were based on cash draws or a calculation using unobligated balances, total federal funds authorized, and previously reported expenditures.

**Cause:** Staff turnover

**Effect:** Reporting inaccuracies could result in a hold on grant funds.

**Recommendation:** We recommend that the Department improve their procedures to ensure accurate financial reporting.

**Management Response/Corrective Action Plan:** *We agree.*

*The agency does file reports timely along with the necessary information to include; copies of General Ledger printouts and attached actual expenditure documentation and reported to appropriate agencies. We began this process in fiscal year 2007.*

***Contacts:*** *Ginnie Ricker, Deputy Director, DVEM-MEMA, 624-4471*
*Ron Looman, Senior Contract Grant Specialist, DVEM-MEMA, 624-4450*

# HOMELAND SECURITY CLUSTER

**(06-97)**

**Finding Title:** Noncompliance with subrecipient monitoring requirements
**Prior Year Finding:** 05-39
**CFDA:** 97.004, 97.067
**CFDA Title:** Homeland Security Cluster
**Federal Award:** 2003-TE-TX-0158, 2003-MU-T3-0016, 2004-GE-T4-0041, 2005-GE-T5-0053
**Federal Agency:** U.S. Department of Homeland Security
**State Department:** Defense, Veterans and Emergency Management (DVEM)
**Bureau:** Maine Emergency Management Agency

**Finding Type:** Internal control and compliance

**Compliance Area:** Subrecipient monitoring

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements for State and Local Governments (28 CFR §66.26, §66.37)

**Condition:** The Department did not have adequate controls to ensure compliance with subrecipients monitoring requirements. We noted the following:

- No procedures were in place to ensure that subrecipients with expenditures exceeding the OMB Circular A-133 audit threshold submitted an audit report.
- The Department did not have procedures in place to ensure that management decisions on audit findings were issued within six months after the receipt of the subrecipient's Single Audit report.
- The standard letter used to communicate the grant award did not contain the CFDA title and number, award number, name of federal awarding agency and compliance requirements.

**Context:** This is a systemic problem. Currently, the Department has no procedures in place to review subrecipient A-133 audit reports.

**Cause:**
- Lack of procedures
- Staff turnover
- Lack of understanding of federal requirements

**Effect:** Subrecipients may not be aware they are receiving federal grant funds nor of the applicable federal program requirements, potentially resulting in noncompliance with federal regulations.

**Recommendation:** We recommend that the Department establish procedures to ensure that subrecipient A-133 audit reports are reviewed and management decisions are made within six months of receiving the reports. We further recommend that subgrantees are provided with the all the required grant award information.

**Management Response/Corrective Action Plan:** *We agree.*

*MEMA/DVEM is working with the State Controller's Office to address this issue and expects to have corrective action measures in place in fiscal year 2008.*

***Contacts:*** *Ginnie Ricker, Deputy Director, DVEM – MEMA, 624-4471*
*Bruce Fitzgerald, Homeland Security Division Director, 624-4474*

**Please see the following findings for other issues relating to this program.**

**(06-101)** ***page E-211***

**(06-98)**

**Finding Title:** Inadequate controls over subrecipient monitoring
**Prior Year Finding:** No
**CFDA:** 97.036
**CFDA Title:** Disaster Grants – Public Assistance (Presidentially Declared Disasters)
**Federal Award:** FEMA3205EMME, FEMA3206EMME, FEMA3209EMME, FEMA3210EMME, FEMA1468DRME, FEMA1508DRME, FEMA1591DRME and FEMA3265EMME
**Federal Agency:** U.S. Department of Homeland Security
**State Department:** Defense, Veterans and Emergency Management (DVEM)
**Bureau:** Maine Emergency Management Agency

**Finding Type:** Internal control and compliance

**Compliance Area:** Subrecipient monitoring

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (44 CFR §13.37 and §13.40)

**Condition:** The Maine Emergency Management Agency (MEMA) does not have a monitoring system in place to ensure that all subrecipients that are required to obtain a Single Audit provide them with a copy of the report.

**Context:** This is a systemic problem. Although four subrecipients sent Single Audit Reports to MEMA during the fiscal year, we determined that for a sample of four other large municipalities, these reports were not submitted to the agency.

**Cause:** Inadequate subrecipient monitoring procedures.

**Effect:** If MEMA does not obtain subrecipient Single Audit Reports, then the organization will not be able to review and identify problems related to the program. If problems are identified in Single Audit Reports, federal regulations require management decisions and follow-up actions on audit findings to ensure that subrecipients take timely and appropriate corrective actions.

**Recommendation:** We recommend that the Department establish monitoring procedures to ensure that subrecipients submit Single Audits Reports.

**Management Response/Corrective Action Plan:** *We agree.*

*MEMA/DVEM is working with the State Controller's Office to address this issue and expects to have corrective action measures in place in fiscal year 2008.*

***Contacts:*** *Ginnie Ricker, Deputy Director, DVEM-MEMA, 624-4471*

**Please see the following findings for other issues relating to this program.**

**(06-101)** ***page E-211***

**(06-99)**

**Finding Title:** Inadequate controls over the administration of federal funds
**Prior Year Finding:** 05-21, 05-27, 05-35, 05-36
**CFDA:** Various
**CFDA Title:** Various
**Federal Award:** Various
**Federal Agency:** U.S. Department of Health and Human Services
U.S. Department of Agriculture
**State Department:** Administrative and Financial Services
**Bureau:** Health and Human Services Service Center

**Finding Type:** Internal control

**Compliance Area:** Allowable costs/Cost principles, Cash management, Reporting

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments – Standards for Financial Management Systems (45 CFR §92.20)

**Conditions:** The Department does not consistently utilize separate accounts within the State's accounting system for each federal program. For some federal programs, "reporting organizations" are used for individual programs but are combined into a single "appropriation organization," which controls the cash for multiple programs. The Department is not always able to provide a complete and accurate list of the accounts established and used for each program.

The State's accounting records do not accurately reflect the sources and uses of funds. Transactions are not always posted or transferred to the relevant accounts. This is particularly true for costs related to accounts within the Department's cost allocation plan. Those costs are significant because they include regional office costs and other costs that benefit multiple programs. This process complicates the administration of federal funds.

The Department "self-funds" some programs through a method they refer to as "earned revenue". This "earned revenue" is the result of federally qualified expenditures having been paid for with State funds. When the Department subsequently receives federal reimbursement, the State's General Fund is not refunded. Instead, these federal reimbursements are often transferred to Other Special Revenue Fund accounts and used to "self-fund" other Department programs. The "earned revenue" amounts transferred were sometimes estimates based on budgeted amounts that may not have agreed with actual qualified expenditures. In addition we noted that certain calculations to determine the "earned revenue" contained formula errors. This "self-funding" approach also makes tracing the sources and uses of funds difficult or, if proper

documentation is not maintained, impossible. Additionally, we could not determine if the Department actually had legislative authority to retain the "earned revenue" rather than reimburse the General Fund. The Title IV-E Foster Care and Adoption Assistance Programs are examples of programs that used the "earned revenue" approach.

**Context:** This is a systemic problem.

**Cause:**
- Incomplete written policies and procedures
- Inadequate accounting structure
- Overly complex accounting

**Effect:**
- Difficulty identifying sources and uses of funds
- Insufficient supporting documentation
- Noncompliance with federal regulations (e.g. cash management, reporting, allowable cost/cost principles, etc.)

**Recommendation:** We recommend that the Department:
- Establish and maintain a chart of accounts
- Document all procedures in writing
- Record all activity relating to specific programs into distinct accounts
- Consistently review and reconcile account activity
- Obtain legislative authority for use of "earned revenue" as a mechanism for self-funding or discontinue this process

**Management Response/Corrective Action Plan:** *The Department of Administrative and Financial Services, DHHS Service Center agrees with the finding and has implemented many of the recommendations.*

*Legislative authority for the use of "earned revenue" was granted in PL 2007, C.1, section V-1.*

*The DHHS Service Center established the chart of accounts which was incorporated into the DHHS Cost allocation submission.*

*The DHHS Service Center disagrees with the Department of Audit recommendation to use separate accounts within the State's accounting system for each federal program. The effort to separately budget, maintain and report on over one hundred and fifty active grants is not possible given the current level of staffing.*

***Contact:*** *Charles Woodman, DAFS, DHHS Service Center - Deputy Director, 287-2572*

# VARIOUS

**(06-100)**

**Finding Title:** Inadequate support for the Federal Cash Transaction Report (PSC-272)
**Prior Year Finding:** 05-32
**CFDA:** 93.041, 93.110, 93.234, 93.283, 93.556, 93.558, 93.563, 93.566, 93.596, 93.600, 93.645, 93.658, 93.659, 93.671, 93.674, 93.775, 93.777, 93.778, 93.917
**CFDA Title:** Title VII Elder Abuse Prevention
Maternal and Child Health
Traumatic Brain Injury
Investigations and Technical Assistance
Promoting Safe and Stable Families
Temporary Assistance for Needy Families
Child Support Enforcement
Refugee Assistance
Mandatory and Matching Funds of Child Care Development Fund
Head Start
Child Welfare Services
Foster Care Title IV-E
Adoption Assistance
Family Violence Prevention
Chafee Foster Care Independence
Medicaid Cluster
HIV Care
**Federal Award:** 06AAMET7SP, H74MC00003-A0, P05MC00061-A0, 0CCU122825, 0CCU122057, 0501ME00FP, 0601ME00FP, 0501METANF, 0404ME4004, 9804ME4004, 9704ME4004, 9904ME4004, 0604ME4004, 0204ME4004, 0104ME4004, 05AAME1100, 06AAME1100, 06AAME1110, 0601MECCDF, 0601ME1400, 0401ME1401, 0501ME1407, 0401MEFVPS, 0601ME1420, 0501ME1420, 01CD000805, 0605ME5048, 0405ME5028, 0505ME5028, 0605ME5028, HAX070023O
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Administrative and Financial Services
**Bureau:** Health and Human Services Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Reporting (PSC-272)

**Known Questioned Cost:** None

**Likely Questioned Cost:** None

**Criteria:** Uniform Administrative Requirements for Grants and Cooperative Agreements to States, Local and Tribal Governments – Standards for Financial Management Systems (45 CFR §92.20)

**Condition:** The Department did not have adequate procedures to ensure that the Federal Cash Transaction reports (PSC-272) were properly supported. As a result, the Department could not provide support for reported expenditures for thirteen of twenty-one programs drawn against letter of credit Y180P and four of fifty programs drawn against letter of credit 4578G.

**Context:** We reviewed reports for the quarters ending September 30, 2005 and June 30, 2006. Issues were found in both quarters. In certain instances, expenditures were based on estimates; in other instances, supporting documentation could not be provided for the reported amounts.

**Cause:**
- Supporting documentation was not retained
- Estimates were used to report expenditures

**Effect:** Expenditures reported were not properly supported.

**Recommendation:** We recommend that the Department maintain and provide adequate support for the PSC-272 reports. We further recommend that the Department report actual expenditures and not estimates.

**Management Response/Corrective Action Plan:** *The Department of Health and Human Services and the Department of Administrative and Financial Services agree with this finding.*

*The Health and Human Services Service Center will review the eleven out of seventy-one programs that were deemed to have inadequate documentation. On all new grant awards received since FY 05, actual expenditures are reported. It is the Department's policy to retain adequate documentation supporting the amounts reported on the PSC 272 report. We will take immediate action to ensure staff members are aware of the policy and provide ongoing monitoring to ensure proper documentation is being provided and retained.*

***Contact:** Liz Hanley, Director, DAFS, DHHS Service Center, 287-1861*

**(06-101)**

**Finding Title:** Excess working capital reserves
**Prior Year Finding:** 05-34
**CFDA:** Various
**CFDA Title:** Various
**Federal Award:** Various
**Federal Agency:** U.S. Department of Health and Human Services
**State Department:** Administrative and Financial Services (DAFS)
**Bureau:** General Government Service Center

**Finding Type:** Internal control and compliance

**Compliance Area:** Allowable costs/Cost principles

**Known Questioned Cost:** $9.4 million Retiree Health Insurance Fund; $4.8 million Employee Health Insurance Fund; $1.6 million Office of Information Technology Fund. Questioned costs were calculated by multiplying the excess reserves by the percentages paid by federal programs by the individual fund.

**Likely Questioned Cost:** $15.8 million

**Criteria:** Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87 Attachment C §G (2))

**Condition:** The Department did not comply with federal working capital reserve requirements. The Retiree Health Insurance Fund, the Employee Health Insurance Fund, and the Office of Information Technology Fund had excess working capital reserves of $53.7, $27.5, and $5.9 million respectively, for fiscal year 2006. These amounts were included in the DAFS cost allocation plan submitted to the U.S. Department of Health and Human Services in December of 2006. All amounts exceeded the 60 days of working capital allowed to be reserved in accordance with Circular A-87.

**Context:** The amount, if any, of excess working capital reserves is determined on an annual basis by DAFS. Although rates are periodically adjusted, rates charged were higher than needed to offset expenditures

**Cause:** Management decisions; Lack of history of incurred but unreported employee health claims

**Effect:** Current and potential future questioned costs

**Recommendation:** We recommend that DAFS adjust billing rates to ensure compliance with federal working capital reserve requirements.

**Management's Response/Corrective Action Plan:** *We agree that $9.4 million Retiree Health Insurance Fund, $4.8 million Employee Health Insurance Fund, and $1.6 million Office of Information Technology are reasonable estimates of the federal share of reported excess retained earnings at June 30, 2006.*

**Retiree Health Insurance Fund:**
*Prior to fiscal year 2005, the State had been in the process of changing funding of retiree health care benefits from a pay-as-you-go basis to an actuarial funding method. Due to budgetary constraints and difficulties accumulating sufficient resources to fund retiree health care benefits on an actuarial basis, PL 2003, Chapter 673 authorized the State to manage the retiree health insurance fund on a cost-reimbursement basis beginning June 30, 2005.*

*During fiscal year 2006, the State Controller and the Commissioner of Administrative and Financial Services took action to conduct research to determine the best course of action for the State and the current and retired employees of the State with regards to implementation of*

*GASBS 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions. The State must implement GASB 45 in fiscal year 2008. An actuarial consultant was hired to calculate an appropriate valuation of the unfunded liability in-light of the plan's assets and assist in developing an explanation of the process put into place to educate the Administration, Legislature, and interested public about GASBS 45 and the need to address the liability that had accrued over the years that the fund was managed on a pay-as-you-go basis. In light of these circumstances, management decided not to take any action to return the fiscal year 2006 excess reserve balances calculated on a pay-as-you-go basis as it became clear that it was in the best interest of the State to revert back to funding the liability on an actuarial basis.*

*The actuaries have finished their initial valuation and have recommended an amortization and funding plan consistent with GASBS 45. Legislation has been enacted in PL 2007, Chapter 240, Part RRR to establish a trust for OPEB and to fund the Retiree Health Program on an actuarial basis using the current plan's assets to make an initial deposit.*

**Employee Health Insurance Fund:**

*The State became self insured for employee and retiree health coverage on July 1, 2003. An independent contractor provides claims administration services. The State pays the contractor a monthly premium fee based upon a rate that is determined with the assistance of an actuarial consultant. At the end of the year, premium payments are compared to actual claim payments and the outstanding balance owed or due is settled with the contractor. As this is a new self insurance program for the State, determining an appropriate rate based upon prior claims history in order to build adequate reserves for incurred but unreported claims is a challenge. The Department is currently reviewing the activity in the Employee Health Insurance Fund in order to determine the cause of the apparent excess reserve and whether funds should be returned to the supporting agencies.*

*The excess reserve balances noted in the finding are based upon OMB A-87, which allows for a working capital reserve of 2 months. Title 5, subsection 285, paragraph 9 establishes restrictions for self-insured programs including the requirement to maintain 2 ½ months of premium equivalent in reserves. The Department plans to contact the federal government to request an increase in the working capital reserve to allow for 2 ½ months of reserves to comply with Title 5.*

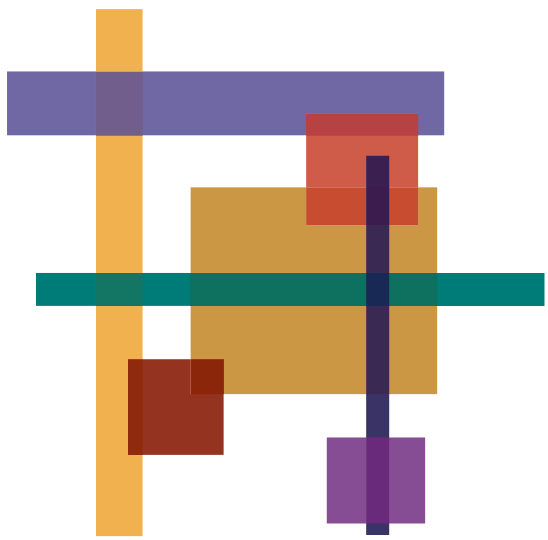
**Office of Information Technology:**

*The Cost Allocation Plan excess retained earnings were $5.9million at 6-30-06 with the federal share calculated as $1.6million. The excess retained earnings were calculated based upon allowing a reserve for the cost of 60 days of operations, per OMB Circular A-87. However, A-87 says a working capital reserve exceeding 60 days may be approved in exceptional cases. In February 2007 the Office of Information Technology submitted a written request to the federal DHHS Division of Cost Allocation requesting a 120 day operating allowance through June 30, 2008. This letter was written in response to a Division of Cost Allocation request for resolution of fiscal year 2005 questioned costs.*

*The February 2007 letter to the federal DHHS Division of Cost Allocation outlined the many steps that OIT has taken to reduce and control retained earnings growth, including rebates to State agencies and several rate reductions. A radical reorganization of state-wide technology services in fiscal years 2006 and 2007 merged all technology services in to one Office of Information Technology. The restructuring will generate higher levels of expenses, resulting in a much larger 60 day allowance in future fiscal years.*

*We are awaiting the Cost Allocation Office's determination on our appeal for a higher retained earnings allowance that will be sufficiently high to resolve the questioned costs.*

# STATE OF MAINE
# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
# FOR THE YEAR ENDED JUNE 30, 2006



# State of Maine
# Summary Schedule of Prior Audit Findings
# For Years Prior to Fiscal Year 2006

| Finding # | CFDA # | Department | Description | Questioned Costs | Status (Refer to auditee's response for complete Corrective Action Plan ) | FY06 Repeat Finding |
|---|---|---|---|---|---|---|
| 03-11 | Various | Administrative and Financial Services | Excess working capital reserve balance | $613,212 | Written federal approval requested in FY07 | 06-101 |
| 03-12<br>03-72 | 93.667 | Health and Human Services | Inadequate cash management procedures | None | Corrective action continued in FY07 | See 06-55 No further action warranted per OMB A-133 §315(b)(4) |
| 03-17 | 12.401 | Defense, Veterans and Emergency Management | Inadequate controls over program requirements (Prior Year Finding) | None | Corrective action taken in FY06 | Finding was not repeated |
| 03-30 | N/A | Health and Human Services | Administration of federal funds inadequate (Prior Year Finding) | None | FY06 finding cited for each HHS program. | No further action warranted per OMB A-133 §315(b)(4) |
| 03-31 | 10.558 | Health and Human Services | Inadequate control over, and non-compliance with, cash management requirements | None | Corrective action taken in FY06 | Finding was not repeated |
| 03-36 | 10.561 | Health and Human Services | Inadequate controls over federal reporting requirements | None | Corrective action continued in FY07 | See 06-11 No further action warranted per OMB A-133 §315(b)(4) |
| 03-37 | 10.561 | Health and Human Services | Inadequate controls over financial reporting and program data (Prior Year Finding) | None | Corrective action continued in FY07 | See 06-06 No further action warranted per OMB A-133 §315(b)(4) |
| 03-39 | 93.268 | Health and Human Services | Controls insufficient to ensure compliance with standards for support of salaries (Prior Year Finding) | None | Corrective action taken in FY06 | Finding was not repeated |
| 03-40 | 93.268 | Health and Human Services | Untimely reimbursement | None | Corrective action continued in FY07 | See 06-99 No further action warranted per OMB A-133 §315(b)(4) |
| 03-41 | 93.558 | Health and Human Services | Non-compliance with requirements for income and eligibility verification system | None | Corrective action continued in FY07 | See 06-71 No further action warranted per OMB A-133 §315(b)(4) |
| 03-42 | 93.558 | Health and Human Services | Inaccurate data reported on ACF-199 and ACF-209 quarterly performance reports | None | Corrective action continued in FY07 | See 06-44 No further action warranted per OMB A-133 §315(b)(4) |
| 03-45 | 93.558<br>93.658<br>93.778 | Health and Human Services | Cash management and accounting records inadequate (Prior Year Finding) | None | Corrective action continued in FY07 | See 06-43 & 06-99 No further action warranted per OMB A-133 §315(b)(4) |
| 03-46 | 93.563 | Health and Human Services | Inadequate controls over accounting for child support (Prior Year Finding) | None | Corrective action continued in FY07 | See 06-99 No further action warranted per OMB A-133 §315(b)(4) |
| 03-47 | 93.563 | Health and Human Services | Funds transferred in excess of program use (Prior Year Finding) | None | Corrective action continued in FY07 | See 06-46 No further action warranted per OMB A-133 §315(b)(4) |

# State of Maine
# Summary Schedule of Prior Audit Findings
# For Years Prior to Fiscal Year 2006

| Finding # | CFDA # | Department | Description | Questioned Costs | Status (Refer to auditee's response for complete Corrective Action Plan ) | FY06 Repeat Finding |
|---|---|---|---|---|---|---|
| 03-49 | 93.563 | Health and Human Services | Federal financial reporting errors | None | Corrective action continued in FY07 | See 06-47 No further action warranted per OMB A-133 §315(b)(4) |
| 03-54 | 93.575<br>93.596 | Health and Human Services | Federal financial reports not properly prepared (Prior Year Finding) | None | Corrective action continued in FY07 | See 06-49 No further action warranted per OMB A-133 §315(b)(4) |
| 03-55 | 93.575<br>93.596 | Health and Human Services | Inadequate cash management procedures | None | Corrective action taken in FY06 | Finding was not repeated |
| 03-57 | 93.658 | Health and Human Services | Lack of controls over federal financial reporting (Prior Year Finding) | $612,543 | Corrective action continued in FY07 | See 06-53 & 06-99 No further action warranted per OMB A-133 §315(b)(4) |
| 03-61 | 93.658<br>93.659 | Health and Human Services | Inadequate controls over accounting for and reporting the Title IV-E Shared Costs (Prior Year Finding) | $1,965,556<br>$1,231,409 | Corrective action continued in FY07 | See 06-53 & 06-99 No further action warranted per OMB A-133 §315(b)(4) |
| 03-64 | 93.659 | Health and Human Services | Inadequate controls over accounting and reporting | None | Corrective action continued in FY07 | See 06-53 & 06-99 No further action warranted per OMB A-133 §315(b)(4) |
| 03-68 | 93.667 | Health and Human Services | Federal funds not spent in accordance with earmarking requirements | $4,900,000 | Corrective action taken in FY07 | Finding was not repeated |
| 03-71 | Various | Health and Human Services | Inadequate controls over accounting for and reporting of allocated costs (Prior Year Finding) | $683,974<br>$339,510 | New Cost Allocation Plan submitted for federal approval in FY07 | See 06-07 & 06-99 No further action warranted per OMB A-133 §315(b)(4) |
| 03-74 | Various | Health and Human Services | Estimated grant disbursement amounts reported (Prior Year Finding) | None | Corrective action continued in FY07 | See 06-100 No further action warranted per OMB A-133 §315(b)(4) |
| 03-82 | 93.778 | Health and Human Services | Inadequate controls over provider eligibility | None | Corrective action taken in FY06 | Finding was not repeated |
| 03-85 | 93.778 | Health and Human Services | Prescribed sampling methodology for utilization reviews not used (Prior Year Finding) | None | Condition still exists in FY07 | See 06-80 No further action warranted per OMB A-133 §315(b)(4) |
| 03-86 | 93.778 | Health and Human Services | Medicaid financial reports not accurate and not reconciled (Prior Year Finding) | $46,643 | Corrective action continued in FY07 | See 06-76 No further action warranted per OMB A-133 §315(b)(4) |
| 03-90 | 93.778 | Health and Human Services | No process to ensure annual EDP risk analysis and system security reviews are completed (Prior Year Finding) | None | Corrective action continued in FY07 | See 06-83 No further action warranted per OMB A-133 §315(b)(4) |
| 03-99 | 17.258<br>17.259<br>17.260 | Labor | Inadequate computer controls (Prior Year Finding) | None | Management Letter comment issued in FY06 | Finding was not repeated |

# State of Maine
# Summary Schedule of Prior Audit Findings
# For Years Prior to Fiscal Year 2006

| Finding # | CFDA # | Department | Description | Questioned Costs | Status (Refer to auditee's response for complete Corrective Action Plan ) | FY06 Repeat Finding |
|---|---|---|---|---|---|---|
| 03-100 | 84.126 | Labor | Incorrect financial reporting (Prior Year Finding) | None | Corrective action continued in FY07 | See 06-30 No further action warranted per OMB A-133 §315(b)(4) |
| 03-101 | 84.126 | Labor | Inadequate controls over program payments (Prior Year Finding) | None | Corrective action continued in FY07 | See 06-26 No further action warranted per OMB A-133 §315(b)(4) |
| 03-103 | 20.205 | Transportation | Prevailing wage rates not paid (Prior Year Finding) | None | Corrective action continued in FY07 | See 06-20 No further action warranted per OMB A-133 §315(b)(4) |
| 04-06 | 84.027<br>84.010 | Administrative and Financial Services | Internal control procedures over subrecipients' cash balances not followed. | None | Corrective action continued in FY07 | 06-23 |
| 04-09 | Various | Administrative and Financial Services | Excess working capital reserve balance | $788,965 | Written federal approval requested in FY07 | 06-101 |
| 04-10 | 12.401 | Defense, Veterans and Emergency Management | Inadequate internal control over cash management/noncompliance with cash management requirements | None | Corrective action taken in FY06 | Finding was not repeated |
| 04-17 | 84.027<br>84.010 | Education | Internal control procedures over subrecipients' cash balances not followed | None | Corrective action continued in FY07 | 06-23 |
| 04-19 | 10.551 | Health and Human Services | Inadequate controls over federal reporting requirements | None | Corrective action continued in FY07 | 06-11 |
| 04-21 | 10.558 | Health and Human Services | Noncompliance with subrecipient monitoring requirements | None | Corrective action taken in FY06 | Finding was not repeated |
| 04-22 | 10.558 | Health and Human Services | Inadequate internal control over, and non-compliance with, cash management requirements | None | Corrective action taken in FY06 | Finding was not repeated |
| 04-24 | 10.561 | Health and Human Services | Inadequate controls over financial reporting | None | Corrective action continued in FY07 | 06-06 |
| 04-25 | 93.268 | Health and Human Services | Inconsistent monitoring of pediatric providers hand no established procedures for the monitoring of non-pediatric providers | None | Corrective action continued in FY07 | 06-38 |
| 04-26 | 93.268 | Health and Human Services | No established procedures for monitoring the safeguarding of vaccine inventory | None | Corrective action continued in FY07 | 06-39 |
| 04-27 | 93.268 | Health and Human Services | Inadequate controls over cash management and timely reimbursement | None | Corrective action continued in FY07 | 06-99 |
| 04-29 | 93.268 | Health and Human Services | Controls insufficient to ensure compliance with standards for support of salaries and wages | None | Corrective action taken in FY06 | Finding was not repeated |
| 04-30 | 93.268 | Health and Human Services | Inadequate controls procedures over reporting/period of availability | $390,085 | Corrective action continued in FY07 | 06-36 |
| 04-31 | 93.558 | Health and Human Services | Noncompliance with income eligibility and verification system requirements | None | Corrective action continued in FY07 | 06-71 |
| 04-32 | 93.558 | Health and Human Services | Insufficient controls to ensure accurate data reporting on ACF-199 and ACF-209 quarterly performance reports | None | Corrective action continued in FY07 | 06-44 |
| 04-33 | 93.563 | Health and Human Services | Inadequate system of internal controls over accounting for child support | None | Corrective action continued in FY07 | 06-99 |

# State of Maine
## Summary Schedule of Prior Audit Findings
## For Years Prior to Fiscal Year 2006

| Finding # | CFDA # | Department | Description | Questioned Costs | Status (Refer to auditee's response for complete Corrective Action Plan ) | FY06 Repeat Finding |
|---|---|---|---|---|---|---|
| 04-35 | 93.563 | Health and Human Services | Inadequate controls to ensure that only program related payroll costs are charged to the program | None | Corrective action taken in FY06 | Finding was not repeated |
| 04-36 | 93.563 | Health and Human Services | Transfers for program services in excess of costs claimed | $101,331 | Corrective action continued in FY07 | 06-46 |
| 04-37 | 93.563 | Health and Human Services | Financial reporting inconsistencies and errors | None | Corrective action continued in FY07 | 06-47 |
| 04-39 | 93.575<br>93.596 | Health and Human Services | Inadequate cash management procedures | None | Corrective action taken in FY06 | Finding was not repeated |
| 04-40 | 93.575<br>93.596 | Health and Human Services | Federal financial reports not accurate | None | Corrective action continued in FY07 | 06-49 |
| 04-45 | 93.658 | Health and Human Services | Federal draws in excess of reported expenditures | $12,400,000 | Corrective action taken in FY07 | Finding was not repeated |
| 04-46 | 93.658 | Health and Human Services | Insufficient internal controls to ensure accurate reporting | $420,224 | Corrective action continued in FY07 | 06-53 &<br>06-99 |
| 04-47 | 93.659 | Health and Human Services | Payments made to ineligible clients | $34,831 | Corrective action continued in FY07 | 06-54 |
| 04-48 | 93.659 | Health and Human Services | Inadequate accounting and reporting controls | None | Corrective action continued in FY07 | 06-53 &<br>06-99 |
| 04-49 | 93.667 | Health and Human Services | Inadequate cash management procedures | None | Corrective action continued in FY07 | 06-55 |
| 04-50 | 93.667 | Health and Human Services | Funds not spent in accordance with earmarking requirements | $1,900,000 | Corrective action taken in FY07 | Finding was not repeated |
| 04-52 | 93.778 | Health and Human Services | Medicaid claims paid on behalf of ineligible recipients (Controls insufficient to ensure compliance with eligibility determinations) | $40,266 | Corrective action taken in FY06 | Finding was not repeated |
| 04-53 | 93.778 | Health and Human Services | Surveillance and utilization reviews not performed on a sampling basis | None | Condition still exists in FY07 | 06-80 |
| 04-55 | 93.778 | Health and Human Services | Unallowable case management claim payments | $7,462 | Awaiting final federal interpretation of requirements | 06-60 |
| 04-56 | 93.778 | Health and Human Services | Provider eligibility records inadequate | None | Corrective action taken in FY06 | Finding was not repeated |
| 04-58 | 93.778 | Health and Human Services | Medicaid financial reports not accurate and not reconciled; Matching controls insufficient | None | Corrective action continued in FY07 | 06-76 |
| 04-60 | 93.775<br>93.777<br>93.778 | Health and Human Services | No internal control system established for ADP risk analyses and system security reviews | None | Corrective action continued in FY07 | 06-83 |
| 04-61 | NONE | Health and Human Services | Lack of control over issuing management decisions | None | Corrective action continued in FY07 | 06-17 |
| 04-62 | 10.551<br>10.561<br>93.558<br>93.658<br>93.659<br>93.667<br>93.775<br>93.777<br>93.778 | Health and Human Services | Costs charged twice, cost allocation plan errors not detected | $1,979,288 | New Cost Allocation Plan submitted for federal approval in FY07 | 06-07 &<br>06-99 |
| 04-64 | 93.558<br>93.575<br>93.658<br>93.778 | Health and Human Services | Cash management and accounting records inadequate | None | Corrective action continued in FY07 | 06-43 &<br>06-99 |

# State of Maine
# Summary Schedule of Prior Audit Findings
# For Years Prior to Fiscal Year 2006

| Finding # | CFDA # | Department | Description | Questioned Costs | Status (Refer to auditee's response for complete Corrective Action Plan ) | FY06 Repeat Finding |
|---|---|---|---|---|---|---|
| 04-66 | 93.003<br>93.558<br>93.767<br>93.775<br>93.777<br>93.778<br>93.913<br>93.940 | Health and Human Services | Estimated/incorrect grant disbursement amounts reported | None | Corrective action continued in FY07 | 06-100 |
| 04-67 | n/a | Health and Human Services | Administration of federal funds inadequate | None | FY06 finding cited for each HHS program. | Finding cited for each HHS program. |
| 04-68 | 17.245 | Labor | Internal controls not adequate to ensure proper reporting of program expenditures on the Schedule of Federal Awards (SEFA) | None | Corrective action taken in FY06 | Finding was not repeated |
| 04-72 | 17.258<br>17.259<br>17.260 | Labor | Lack of adequate computer controls | None | Management Letter comment issued in FY06 | Finding was not repeated |
| 04-73 | 84.126 | Labor | Non-compliance with eligibility time frames | None | Corrective action continued in FY07 | 06-28 |
| 04-75 | 84.126 | Labor | Supervisory review practices over financial reporting are not adequate | None | Corrective action continued in FY07 | 06-30 |
| 04-76 | 84.126 | Labor | Lack of controls over client service payments | None | Corrective action continued in FY07 | 06-26 |
| 04-77 | 84.126 | Labor | Controls inadequate to ensure proper reporting of program income | None | Corrective action continued in FY07 | 06-29 |
| 04-78 | 84.126 | Labor | Inadequate controls over cash management | None | Corrective action continued in FY07 | 06-27 |
| 04-79 | 20.205 | Transportation | Internal control procedures not followed/Noncompliance with Davis Bacon requirements | None | Corrective action continued in FY07 | 06-20 |
| 04-81 | 20.205 | Transportation | Inadequate internal controls over Procurement for construction and consultant contracts. Noncompliance with procurement requirements | None | Corrective action continued in FY07 | 06-21 |
| 05-04 | 10.551<br>10.561 | Administrative and Financial Services | Inadequate controls to ensure accurate reporting of program expenditures | $1,277,640 | Corrective action continued in FY07 | 06-06 |
| 05-05 | 10.558 | Administrative and Financial Services | Inadequate controls to ensure compliance with cash management requirements; and non-compliance | None | Corrective action taken in FY06 | Finding was not repeated |
| 05-06 | 12.401 | Administrative and Financial Services | Inadequate controls to ensure compliance with cash management requirements; and non-compliance | None | Corrective action taken in FY06 | Finding was not repeated |
| 05-07 | 17.225<br>17.245<br>17.207 | Administrative and Financial Services | Inadequate controls to ensure accurate reporting for Schedule of Expenditures of Federal Awards | None | Corrective action taken in FY06 | Finding was not repeated |
| 05-08 | 17.245 | Administrative and Financial Services | Inadequate controls to ensure compliance with cash management requirements | None | Corrective action taken in FY06 | Finding was not repeated |
| 05-09 | 84.010<br>84.027<br>84.287 | Administrative and Financial Services | Inadequate controls to ensure compliance with cash management requirements; and non-compliance | None | Corrective action continued in FY07 | 06-23 |
| 05-10 | 84.027 | Administrative and Financial Services | Inadequate controls to ensure compliance with period of availability requirements; and non-compliance | $66,838 | Corrective action taken in FY06 | Finding was not repeated |
| 05-11 | 84.027 | Administrative and Financial Services | Inadequate controls to ensure compliance with suspension and debarment requirements; and non-compliance | None | Corrective action continued in FY07 | 06-24 |

# State of Maine
# Summary Schedule of Prior Audit Findings
# For Years Prior to Fiscal Year 2006

| Finding # | CFDA # | Department | Description | Questioned Costs | Status (Refer to auditee's response for complete Corrective Action Plan ) | FY06 Repeat Finding |
|---|---|---|---|---|---|---|
| 05-12 | 84.126 | Administrative and Financial Services | Inadequate controls to ensure compliance with cash management requirements; and non-compliance | None | Corrective action continued in FY07 | 06-27 |
| 05-13 | 84.126 | Administrative and Financial Services | Inadequate controls to ensure accurate reporting of program expenditures | None | Corrective action continued in FY07 | 06-30 |
| 05-14 | 93.268 | Administrative and Financial Services | Inadequate controls to ensure compliance with cash management requirements | None | Corrective action continued in FY07 | 06-99 |
| 05-15 | 93.268 | Administrative and Financial Services | Inadequate controls to ensure compliance with period of availability requirements | $80,887 | Corrective action taken in FY06 | Finding was not repeated |
| 05-16 | 93.268 | Administrative and Financial Services | Inadequate controls to ensure accurate reporting of program expenditures; and non-compliance | None | Corrective action continued in FY07 | 06-36 |
| 05-17 | 93.558 | Administrative and Financial Services | Inadequate controls to ensure compliance with maintenance of effort requirements; and non-compliance | None | Corrective action taken in FY06 | Finding was not repeated |
| 05-18 | 93.558 | Administrative and Financial Services | Inadequate controls to ensure accurate reporting of program expenditures; and non-compliance | None | Corrective action continued in FY07 | 06-45 |
| 05-19 | 93.558 | Administrative and Financial Services | Inadequate controls to ensure accurate reporting of program expenditures; and non-compliance | None | Corrective action continued in FY07 | 06-45 |
| 05-20 | 93.563 | Administrative and Financial Services | Inadequate controls to ensure accurate calculation of federal funding; and non-compliance with allowable costs requirements | $569,102 | Corrective action taken in FY06 | Finding was not repeated |
| 05-21 | 93.563 | Administrative and Financial Services | Inadequate controls to ensure accurate program accounting; and non-compliance with allowable costs requirements | None | Corrective action continued in FY07 | 06-99 |
| 05-22 | 93.563 | Administrative and Financial Services | Inadequate controls to ensure accurate reporting of program expenditures; and non-compliance with allowable costs requirements | $49,431 | Corrective action taken in FY06 | Finding was not repeated |
| 05-23 | 93.563 | Administrative and Financial Services | Inadequate controls to ensure accurate accounting for program expenditures | None | Corrective action continued in FY07 | 06-46 |
| 05-24 | 93.563 | Administrative and Financial Services | Inadequate controls to ensure accurate reporting of program expenditures; and non-compliance with allowable costs requirements | $47,924 | Corrective action continued in FY07 | 06-47 |
| 05-25 | 93.575<br>93.596 | Administrative and Financial Services | Inadequate controls to ensure accurate financial reporting and reporting for Schedule of Expenditures of Federal Awards | None | Corrective action continued in FY07 | 06-49 |
| 05-26 | 93.575<br>93.596 | Administrative and Financial Services | Inadequate controls to ensure compliance with subrecipient monitoring requirements; and non-compliance | None | Corrective action taken in FY06 | Finding was not repeated |
| 05-27 | 93.658<br>93.659 | Administrative and Financial Services | Inadequate controls to ensure accurate financial reporting; and non-compliance | $307,382 | Corrective action continued in FY07 | 06-53 &<br>06-99 |
| 05-28 | 93.667 | Administrative and Financial Services | Inadequate controls to ensure compliance with cash management requirements; and non-compliance | None | Corrective action continued in FY07 | 06-55 |
| 05-29 | 93.667 | Administrative and Financial Services | Inadequate controls to ensure accurate reporting of program expenditures | None | Corrective action taken in FY06 | Finding was not repeated |
| 05-30 | 93.775<br>93.777<br>93.778 | Administrative and Financial Services | Inadequate controls to ensure accurate reporting and compliance with matching requirements | None | Corrective action continued in FY07 | 06-76 |

# State of Maine
# Summary Schedule of Prior Audit Findings
# For Years Prior to Fiscal Year 2006

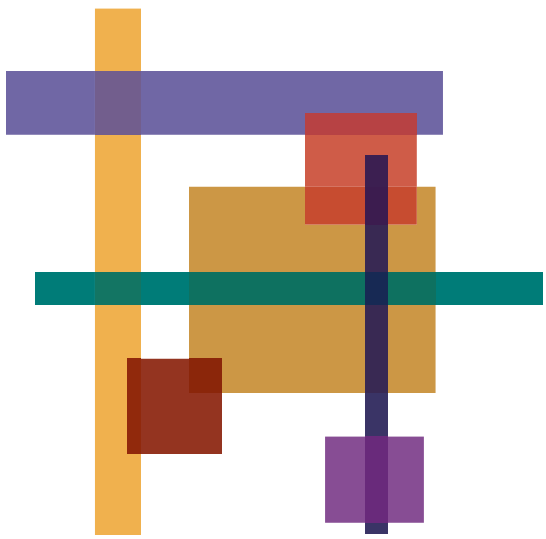
| Finding # | CFDA # | Department | Description | Questioned Costs | Status (Refer to auditee's response for complete Corrective Action Plan ) | FY06 Repeat Finding |
|---|---|---|---|---|---|---|
| 05-31 | 93.775<br>93.777<br>93.778 | Administrative and Financial Services | Inadequate controls to ensure a functional claims mgmt system was in place | None | Corrective action continued in FY07 | 06-81 |
| 05-32 | VARIOUS | Administrative and Financial Services | Inadequate controls to ensure that program draws were properly supported | None | Corrective action continued in FY07 | 06-100 |
| 05-33 | VARIOUS | Administrative and Financial Services | Inadequate controls over provider grant close-out and audit settlement process | None | Corrective action continued in FY07 | Finding was not repeated |
| 05-34 | VARIOUS | Administrative and Financial Services | Inadequate controls to ensure compliance with working capital reserve requirements; and non-compliance | $1,170,000 | Written federal approval requested in FY07 (Expanded in 06 to other funds) | 06-101 |
| 05-35 | VARIOUS<br>93.558<br>93.563<br>10.551<br>10.561<br>93.658<br>93.659<br>93.667<br>93.775<br>93.777<br>93.778 | Administrative and Financial Services | Inadequate controls to ensure compliance with cost allocation principles; and non-compliance with allowable costs requirements | $1,065,582 | New Cost Allocation Plan submitted for federal approval in FY07 | 06-07 &<br>06-99 |
| 05-36 | VARIOUS<br>93.575<br>93.658<br>93.659<br>93.667<br>93.778 | Administrative and Financial Services | Inadequate controls to ensure compliance with cash management agreement; and inadequate support for program draws | None | Corrective action continued in FY07 | 06-43 &<br>06-99 |
| 05-37 | 97.004 | Defense, Veterans and Emergency Management | Inadequate controls to ensure compliance with certification requirement for employees who work solely for one program | None | Corrective action continued in FY07 | 06-91 |
| 05-38 | 97.004 | Defense, Veterans and Emergency Management | Inadequate controls to ensure compliance with suspension and debarment requirements | None | Corrective action taken in FY07 | Finding was not repeated |
| 05-39 | 97.004 | Defense, Veterans and Emergency Management | Inadequate controls to ensure compliance with subrecipient monitoring requirements - CFDA identification not on grant awards | None | Corrective action continued in FY07 | 06-97 |
| 05-40 | 84.287 | Education | Inadequate controls to ensure compliance with suspension and debarment requirements | None | Management Letter comment issued in FY06 | Finding was not repeated |
| 05-41 | 84.287 | Education | Inadequate controls to ensure compliance with subrecipient monitoring requirements - annual site visits not performed and/or documented | None | Corrective action taken in FY07 | Finding was not repeated |
| 05-42 | 10.551<br>10.561 | Health and Human Services | Inadequate controls to ensure compliance with reporting requirements; and non-compliance | None | Corrective action continued in FY07 | 06-11 |
| 05-43 | 10.557 | Health and Human Services | Inadequate controls to ensure compliance with cash management requirements; and non-compliance | None | Corrective action continued in FY07 | 06-13 |
| 05-44 | 10.557 | Health and Human Services | Inadequate controls to ensure compliance with subrecipient monitoring requirements; and non-compliance | None | Corrective action continued in FY07 | 06-14 |
| 05-45 | 10.558 | Health and Human Services | Inadequate controls to ensure accurate financial reporting; and non-compliance | None | Corrective action continued in FY07 | 06-16 |
| 05-46 | 10.558 | Health and Human Services | Non-compliance with subrecipient monitoring requirements | None | Corrective action taken in FY06 | Finding was not repeated |

# State of Maine
# Summary Schedule of Prior Audit Findings
# For Years Prior to Fiscal Year 2006

| Finding # | CFDA # | Department | Description | Questioned Costs | Status (Refer to auditee's response for complete Corrective Action Plan ) | FY06 Repeat Finding |
|---|---|---|---|---|---|---|
| 05-47 | 93.268 | Health and Human Services | Inadequate controls to ensure compliance with allowable costs requirements; and non-compliance | $427,504 | Corrective action taken in FY06 | Finding was not repeated |
| 05-48 | 93.268 | Health and Human Services | Inadequate controls to ensure compliance with requirements for monitoring and certification of the vaccine inventory vendor; and non-compliance | None | Corrective action continued in FY07 | 06-39 |
| 05-49 | 93.268 | Health and Human Services | Inadequate controls to ensure compliance with requirements for monitoring providers' compliance with grant requirements; and non-compliance | None | Corrective action continued in FY07 | 06-38 |
| 05-50 | 93.558 | Health and Human Services | Inadequate controls to ensure accurate performance reporting; and non-compliance | None | Corrective action continued in FY07 | 06-44 |
| 05-51 | 93.563 | Health and Human Services | Inadequate controls to ensure compliance with requirements for timely establishment of case records; and non-compliance | None | Corrective action continued in FY07 | 06-48 |
| 05-52 | 93.658 | Health and Human Services | No procedures for distinguishing subrecipients from vendors; and non-compliance with subrecipient monitoring requirements | None | Corrective action taken in FY06 | Finding was not repeated |
| 05-53 | 93.659 | Health and Human Services | Inadequate controls to ensure program funds are spent on eligible clients, resulting in payments on behalf of ineligible clients | $13,944 | Corrective action continued in FY07 | 06-54 |
| 05-54 | 93.667 | Health and Human Services | Inadequate controls to ensure compliance with earmarking requirements; and non-compliance | $3,100,000 | Corrective action taken in FY07 | Finding was not repeated |
| 05-55 | 93.775<br>93.777<br>93.778 | Health and Human Services | Inadequate procedures to identify allowable targeted case management services; and non-compliance with allowable cost requirements | $6,528 | Awaiting final federal interpretation of requirements | 06-60 |
| 05-56 | 93.775<br>93.777<br>93.778 | Health and Human Services | Inadequate controls to ensure a functional claims mgmt system was in place; and non-compliance | None | Corrective action continued in FY07 | 06-81 |
| 05-57 | 93.775<br>93.777<br>93.778 | Health and Human Services | Inadequate controls to ensure compliance with allowable cost requirements; and non-compliance | None | Corrective action continued in FY07 | 06-59 |
| 05-58 | 93.775<br>93.777<br>93.778 | Health and Human Services | Inadequate controls to ensure compliance with eligibility & record retention requirements; and non-compliance | None | Corrective action taken in FY06 | Finding was not repeated |
| 05-59 | 93.775<br>93.777<br>93.778 | Health and Human Services | Inadequate controls to ensure accurate calculation of eligibility error rate; and non-compliance | None | Corrective action taken in FY06 | Finding was not repeated |
| 05-60 | 93.775<br>93.777<br>93.778 | Health and Human Services | Inadequate controls to ensure compliance with State & federal automated data processing review requirements; and non-compliance | None | Corrective action continued in FY07 | 06-83 |
| 05-61 | 93.775<br>93.777<br>93.778 | Health and Human Services | Inadequate controls to ensure files contained sufficient records of provider licensing & required disclosures; and non-compliance | None | Corrective action taken in FY06 | Finding was not repeated |
| 05-62 | 93.775<br>93.777<br>93.778 | Health and Human Services | Inadequate controls to ensure compliance with advance planning document requiring independent validation & verification throughout development of Medicaid Management Information System; and non-compliance | None | Finding applied only to SFY05 - not repeated | Finding was not repeated |

# State of Maine
## Summary Schedule of Prior Audit Findings
## For Years Prior to Fiscal Year 2006

| Finding # | CFDA # | Department | Description | Questioned Costs | Status (Refer to auditee's response for complete Corrective Action Plan ) | FY06 Repeat Finding |
|---|---|---|---|---|---|---|
| 05-63 | 93.775<br>93.777<br>93.778 | Health and Human Services | Inadequate controls to ensure ongoing evaluation, by sampling, of the need for & quality & timeliness of Medicaid services; and non-compliance | None | Condition still exists in FY07 | 06-80 |
| 05-64 | 93.775<br>93.777<br>93.778 | Health and Human Services | Inadequate controls to ensure actions are taken, reviewed, & documented to resolve issues identified by Program Integrity Unit; and non-compliance | None | Finding applied only to SFY05 - not repeated | Finding was not repeated |
| 05-65 | VARIOUS<br>10.558<br>93.558<br>93.575<br>93.596<br>93.667 | Health and Human Services | Inadequate controls to ensure compliance with subrecipient monitoring requirements; and non-compliance | None | Corrective action continued in FY07 | 06-17 |
| 05-66 | VARIOUS<br>93.775<br>93.777<br>93.778<br>10.551<br>10.561<br>93.558<br>93.767 | Health and Human Services | Inadequate control policies & procedures related to automated system used for client eligibility determinations; and non-compliance | None | Corrective action taken in FY06 | Finding was not repeated |
| 05-67 | VARIOUS<br>93.775<br>93.777<br>93.778<br>10.551<br>10.561<br>93.558<br>93.767 | Health and Human Services | Inadequate controls to ensure appropriate exchange & analysis of income & eligibility verifications; and non-compliance. | None | Corrective action continued in FY07 | 06-71 |
| 05-68 | 17.258<br>17.259<br>17.260 | Labor | Inadequate control policies & procedures related to automated system used for eligibility determinations | None | Management Letter comment issued in FY06 | Finding was not repeated |
| 05-69 | 84.126 | Labor | Inadequate controls to ensure compliance with allowable cost requirements | None | Corrective action continued in FY07 | 06-26 |
| 05-70 | 84.126 | Labor | Inadequate controls to ensure compliance with requirements for certification or support for personal service charges; and non-compliance with allowable cost requirements | None | Corrective action taken in FY06 | Finding was not repeated |
| 05-71 | 84.126 | Labor | Inadequate controls to ensure compliance with requirements regarding eligibility determinations; and non-compliance. | None | Corrective action continued in FY07 | 06-28 |
| 05-72 | 84.126 | Labor | Inadequate controls to ensure compliance with program income requirements; and non-compliance | None | Corrective action continued in FY07 | 06-29 |
| 05-73 | 97.004 | Public Safety | Inadequate controls to ensure compliance with suspension and debarment requirements; and non-compliance | None | Corrective action taken in FY06 | Finding was not repeated |
| 05-74 | 20.205 | Transportation | Inadequate controls to ensure compliance with procurement, suspension and debarment requirements; and non-compliance | None | Corrective action continued in FY07 | 06-21 |
| 05-75 | 20.205 | Transportation | Inadequate controls to ensure compliance with Davis-Bacon Act requirements; and non-compliance | None | Corrective action continued in FY07 | 06-20 |



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